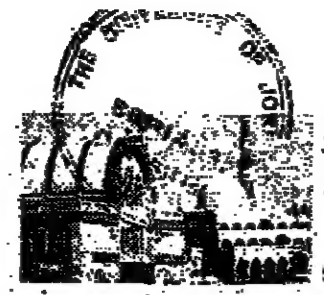
Yugoslavia *The betrayal of Bosnia* Page 3

Adidas *Pentland takes up the baton* Page 15



FT Traveller *Dubai* Section III

A new steam age *Hydrogen power on the road* Page 9

NEWSPAPER of THE YEAR

FINANCIAL TIMES

Wednesday July 8 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

KIO's principal Spanish company may face default

The Kuwait Investment Office's main Spanish holding company, Torras, is in danger of defaulting on a £100m ($192m) convertible bond, should Torras' large chemicals affiliate, Ercros, press ahead with a decision last week to file for protection from its creditors.

The Eurobond, issued in 1988, is guaranteed by Torras, which owns 40 per cent of Ercros. "If Ercros files for protection, it could well trigger... default," said David Norris, a director of the Law Debenture Trust Corporation, trustee of the bonds. Page 14

Wall Street: Blue chip stocks were marked down substantially as a result of uncertainty over prospective second-quarter corporate earnings figures. The Dow Jones industrial average ended 44.03 points lower, at 3,295.17, based on early and unofficial data. Page 38

Sanyo Electric, Japanese electronics company, has filed anti-trust and breach of contract suits in the US against Texas Instruments, US semiconductor maker, following the breakdown of year-long negotiations over a semiconductor cross-licence agreement. Page 14

Note of protest struck over Queen

The design of a new plastic-coated Australian $5 banknote has stirred opposition in Australia. The new note, held above left by David Wallace of a Sydney coin exchange, replaces the design featuring Caroline Chisholm (below), a 19th century Australian social worker. Gordon Andrews, designer of the original note, said the new design could "look a little bit silly" in a few years if Australia becomes a republic.

Bonn tax revision: Germany's taxation reform programme has advanced further with agreement on a scheme for a 30 per cent withholding tax on investment income, to take effect at the start of 1993. Page 14

Anglian Group, UK double glazing company, became the latest victim of nervous stock markets when the public took up only 6 per cent of shares on offer to them in the flotation. Page 15; Lex, Page 14

France Télécom, state-owned telecommunications company, is in talks with two of Europe's main computing services companies which could lead to it taking a stake in either or both. Page 15

UK's new defence policy: Britain set out its post Cold war defence strategy in a document designed to allow it to respond to a threat anywhere in the world, not just in Europe. Page 7

British Airways appears to be closer to achieving its long-term ambition of linking up with a large US carrier and increasing its penetration of the American market after talks with USAir. Page 15; JAL may cut routes, Page 19

UN inspectors blocked: Iran barred UN inspectors from its agriculture ministry for a third day in defiance of a Security Council demand under the Gulf war ceasefire. The inspectors want to search the building for documentation on Iraqi ballistic missiles, according to diplomats.

GEC's strategy put to the test:

GEC AT THE CROSSROADS

Britain's General Electric Company built a ring of joint ventures around itself in 1989 when it was threatened by takeover. Now generating a third of group turnover, they make it extremely unlikely it will ever be broken up. But is there a risk of GEC dissolving gently as it loses control to partners with stronger management, international market positions or technology? Part Three of a series, Page 10

Anger over planned US imports curb: American car importers and foreign carmakers attacked legislation to be discussed today which would force Japan to negotiate a quota of 1.65m units or face US retaliation. Page 5

Euro-ruling backs UK government: The European Court ruled that British men could legally be required to pay social security contributions for longer than women. Page 7

Bowler fined: Pakistan bowler Aqib Javed was fined half his match fee and team manager Intikhab Alam reprimanded as a result of dissent in the third Cornhill Test match at Manchester. The game with England ended in a draw.

STOCK MARKET INDICES

FT-SE 100:	2,493.7	(+24.7)
Yield	4.88	
FT-SE Eurotrack 100	1,129.83	(-4.26)
FT-A All-Share	1,199.87	(+0.8%)
FT-A World Index	139.99	(-0.5%)
Nikkei	16,459.55	(-197.52)
New York:		
Dow Jones Ind Ave	3,295.17	(-44.03)
S&P Composite	409.16	(-4.68)

US CLOSING RATES

Federal Funds:	$2\frac{3}{4}$%	($3\frac{1}{16}$%)
3-mo Treas Bills: Yld	3.29%	(3.28%)
Long Bond	$104\frac{11}{32}$	($104\frac{3}{8}$)
Yield	7.595%	(7.618%)

LONDON MONEY

3-mo Interbank	$10\frac{1}{16}$%	(10%)
Liffe long gilt future:	Sep $99\frac{5}{32}$	(Sep $99\frac{7}{8}$)

NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$20.06	(20.625)

Gold

New York Comex (Aug)	$347.1	(347)
London	$345.65	(346.55)

STERLING

New York		
$	1.9332	(1.911)
London:		
$	1.926	(1.91)
DM	2.885	(2.89)
FFr	9.7125	(9.7325)
SFr	2.595	(2.5875)
Y	239.5	(237.75)
£ Index	93.0	(92.9)

DOLLAR

New York:		
DM	1.4983	(1.5125)
FFr	5.016	(5.084)
SFr	1.3466	(1.355)
Y	124.05	(124.325)
London:		
DM	1.498	(1.513)
FFr	5.0425	(5.095)
SFr	1.347	(1.3545)
Y	124.4	(124.5)
$ Index	60.5	(60.8)

Tokyo close Y 124.17

Austria	Sch30	Hungary	Ft162	Malta	Lm0 50	S.Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3 50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2600	Oman	OR1.20	Thailand	Bht50
Egypt	E£4 00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils 500	Poland	Zl 18,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es180		
Greece	Dr250	Lux	LFr60	Qatar	QR10 00		

Saudis shake silver market with sale of 600 tonnes

By Kenneth Gooding, Mining Correspondent, in London

THE National Commercial Bank of Jeddah, Saudi Arabia's sole private bank and one with close ties to the royal family, sold at least 20m troy ounces - or 622 tonnes - of silver, worth about $80m, in only two hours yesterday.

Traders linked the huge sale with yesterday's announcement of the resignation of Sheikh Khalid bin Mahfouz, the Saudi bank's deputy general manager and chief operating officer, who was indicted in the US last week on charges related to the collapsed Bank of Credit and Commerce International.

The metal sold was equivalent to about 5 per cent of annual worldwide demand for silver.

At one stage, the silver price in London was driven down from $4.06 an ounce to $3.82, its lowest level so far this year. The turmoil in Europe was reflected in futures trading on the New York Commodity Exchange, where the most active September silver contract was down 21.8 cents an ounce at one point at $3.835. Prices recovered slightly later and silver closed in London at $3.87 an ounce.

Sheikh Khalid and a London-based associate were charged by a US grand jury less than a week ago with scheming to defraud depositors, regulators and auditors of BCCI.

Sheikh Khalid has described the charges as "completely unwarranted and without justification".

Announcing yesterday that Sheikh Khalid's resignation had been "reluctantly" been accepted, Sheikh Mohammed bin Mahfouz, chairman of the NCB, said: "We are fully confident of Sheikh Khalid's innocence."

Analysts suggested the market would take some time to digest the metal.

Mr Andy Smith, analyst at the Union Bank of Switzerland, recalled that the same bank had hit the gold market in a similar way with large sales in March 1990, when it sold about 100 tonnes of gold, equivalent to about 5 per cent of world supply, and drove the price down by $20 an ounce to $368 in a few hours. "It took the gold market several months to settle down after that." Mr Smith pointed out.

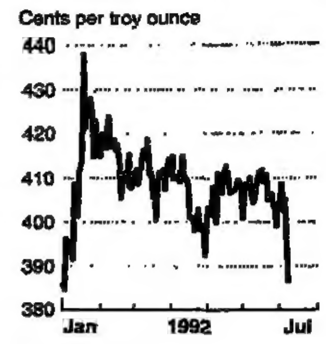
Mr Ted Arnold, analyst at Merrill Lynch, said: "So much silver came back to the market in such a short space of time that it is difficult to see how it can recover."

Silver is used mainly by the photographic and electronics industries and demand fell slightly last year to 541m ounces.

Production has fallen far behind demand as mines have closed because of depressed prices. But there are probably 1bn ounces of metal held by investors who were encouraged to buy in 1987 when the price rose above $7 an ounce.

Saudi banker quits, Page 6

Silver



Source: Datastream

Western leaders condemn warring factions in former Yugoslavia

G7 'would back aid with force'

By Robert Mauthner in Munich

WESTERN leaders warned the warring sides in Bosnia-Hercegovina yesterday that they would be prepared to use military force to ensure humanitarian aid reached Sarajevo, the republic's capital, if the international airlift is endangered.

In one of the most outspoken statements on the crisis in the former-Yugoslavia by any international forum, the leaders of the Group of Seven industrialised nations strongly condemned those responsible for the violence. The Serbian leadership and the Serb-dominated Yugoslav army bore the greatest responsibility, they said.

The declaration came as shooting, including tank rounds, erupted in Sarajevo in the worst fighting since a partial ceasefire was agreed last month.

After appealing to all parties in Bosnia not to imperil humanitarian aid or endanger the lives of those engaged in the relief operation, the G7 leaders said: "Should these efforts fail due to an unwillingness of those concerned to fully co-operate with the United Nations, we believe the Security Council will have to consider other measures, not excluding military means, to achieve its humanitarian objectives."

The special declaration on Yugoslavia made clear the Sarajevo *airlift could only be* the beginning of a larger humanitarian effort an the transport of aid by road to Sarajevo and other needy parts of Bosnia-Hercegovina must also be guaranteed.

Although all subscribed to the declaration, the G7 members differ in willingness to contemplate force. France is in the forefront of those believing a military effort will be required and President François Mitterrand has been putting forward various ideas to his colleagues on how it *could be organised.*

One is that a combined force of troops from the UN and the nine-nation Western European Union should ensure the safety of aid convoys, operating under a new mandate of the UN Security Council. An ad hoc group of WEU officials has been considering contingency plans for operations in the former Yugoslavia and a special meeting of WEU foreign ministers is due to discuss the situation in the margin of the summit of the Conference on Security and Co-operation in Helsinki this week.

The US has been much more circumspect. Mr James Baker, the US secretary of state, said yesterday that it was obvious that humanitarian supplies had to go in by land as well as air, but stressed it was "unlikely" the US would send in ground forces to provide protection for trucks.

While the US has made clear *that it is prepared to use military* aircraft and naval ships to ensure the safety of the aid airlift and any future land convoys, it would leave the provision of ground forces to "other countries", according to General Brent Scowcroft, President George Bush's national security adviser.

Britain has been "at the cautious end of the spectrum", in the words of Mr Douglas Hurd, the foreign secretary. But even Mr Hurd, while categorically ruling out the use of British ground troops, was forced to admit that the humanitarian aid airlift was a "risky and dangerous" operation.

However, British officials, like their American counterparts, consider there are enough other countries which would volunteer to provide ground forces.

The declaration raised the prospect of transforming the European Community's peace confer*ence chaired by Lord Carrington* into a wider international conference under joint EC-UN auspices.

Lord Carrington will fly to New York later this week in line with the G7's desire that there should be close consultations between the EC conference, the UN and the other parties concerned with the Yugoslav crisis. Mr Hurd, in his role as current president of the EC Council of Ministers, will visit Sarajevo, Belgrade, Zagreb, Ljubljana, Tirana and Skopje next week.

The Munich Summit, Page 2
The betrayal of Bosnia, Page 3
Editorial Comment, Page 20

Hungry inhabitants of Sarajevo show their identity cards to police manning a relief distribution point yesterday

Tapie sells control of Adidas to Pentland

By Alice Rawsthorn in Paris and Peggy Hollinger in London

PENTLAND Holdings, the UK consumer products company, yesterday agreed to buy Adidas, the German sporting goods group, from Bernard Tapie Finance, in a deal worth worth DM621m ($408m).

The deal, which values Adidas at FFr3.1bn ($600m), ends speculation about the direction of cash-rich Pentland, which made its fortune by investing $77,500 in Reebok, now one of Adidas' rivals, when it was an unknown US sports shoe company.

The total yield on its 55 per cent stake in Reebok, taken in 1981, was $777m.

The UK company first set its sights on Adidas last summer, when it negotiated the purchase of 20 per cent stake and an option on a further 5 per cent in BTF for £46m ($88m).

Mr Frank Farrant, Pentland's finance director, insisted the company had not been "bounced into a deal" following widespread press speculation about possible management bids offering DM1bn for Adidas last week.

"Pentland had always made it clear we would be very interested in taking control of this company at the right price," Mr Farrant said. "If you look at the price we paid relative to the DM1bn that

Continued on Page 14
Lex, Page 14
Background, Page 15

French truckers reach accord

By William Dawkins in Paris

FRENCH lorry drivers' representatives accepted an outline accord on pay and working conditions yesterday, but vowed to keep up the pressure on the government in their nine-day stoppage.

The move, which comes as some of the barricades are being dismantled, is a significant climbdown by lorry drivers' organisations in the face of the government's determination to hold on to the principle of tough new licence regulations. Under the new rules drivers could be banned if they clock up six penalty points. However, the organisations added that this was only the start of negotiations.

Progress was slow in clearing the blockades which have left thousands of motorists and foreign lorry drivers stranded. By the early afternoon the government reported that more than a third of the roadblocks had been lifted, though sporadic fresh protests broke out in new areas.

Farmers blocked trains in the Loire valley, in protest against supply shortages and European Community agriculture policy reforms.

The two main professional bodies, FNTR and Unostra, yesterday called on lorry drivers to abandon their barricades, but to continue to strike.

The shift from open anarchy to the first stages of negotiation came as a result of an overnight meeting between the government, unions and the two main driver employers' organisations to draft plans to soften the impact of the new rules, which came into effect on July 1.

Truck drivers argued that the rules would put many of them out of work because they could not avoid breaking the law on the

Continued on Page 14
France's shortages grow, Page 4

CONTENTS

EC farm subsidies remain stumbling block

Major fails to revive trade talks

By Peter Norman in Munich and David Dodwell in London

THE high-risk bid by Mr John Major, British prime minister, to revitalise the Uruguay Round of trade liberalisation talks failed yesterday.

British officials had insisted the prime minister would take up the issue of the stalled trade talks vigorously in bilateral talks with France's President François Mitterrand yesterday afternoon. In the end, however, Mr Major said nothing, after the French president made it clear he would not support any breakthrough during the Munich summit.

Even before he met Mr Mitterrand, Mr Major's proposals to break the deadlock had been frustrated. UK officials who had appeared optimistic on Monday evening were visibly downcast 12 hours later. The stumbling block remained the dispute between the EC and the US on cutting Community subsidies to farm trade.

Talks early yesterday between US President George Bush and Mr Jacques Delors, EC Commission president, failed to advance the issue significantly. "No substantial progress was made," a Commission spokesman reported. "If anyone was expecting a breakthrough this morning, it did not happen."

The meeting between the two presidents and their senior officials was the culmination of 36 hours of feverish efforts to push the farm trade talks to a successful conclusion.

The top-level politicking on trade started on Sunday night at a working dinner attended by Presidents Bush and Mitterrand – well before the formal start of the summit. This was at odds with widespread official advice before the summit that the issue was too complex to unravel while leaders were meeting under such a powerful spotlight.

The Uruguay Round was raised again at a bilateral meeting on Monday between Chancellor Helmut Kohl of Germany and Mr Bush. Hopes rose after the German government spokesman reported that the two leaders had agreed negotiations on trade reform should be continued with vigour and that the two sides were closer than many people thought.

Also on Monday, Mr Douglas Hurd, UK foreign secretary and current chairman of the EC council of ministers, met Mr Frans Andriessen, the Community's external affairs commissioner, and Mr James Baker, US secretary of state. The three agreed there was a need to reach a breakthrough to end the current blockage.

Mr Hurd's judgment – wrong in the end – was that the US and EC were geared up to take advantage at once of a "political push" in the talks. Mr Major's move was Britain's attempt to provide that push.

Details of Mr Major's proposals remain obscure. It is thought he proposed extending beyond the six years proposed by Mr Arthur Dunkel, Gatt secretary-general, the period over which EC farm subsidies should be substantially reduced. He also suggested less radical cuts in the volume of the EC's subsidised farm exports than the 24 per cent proposed in the Dunkel plan.

These ideas – which had been discussed at official level for several weeks without success – would have involved some easing of positions adopted by the big industrialised countries represented at the summit, in particular France and Germany.

The ideas were welcomed by the US but barely acknowledged by France, the EC's biggest food exporter, which insisted instead that the US should respond positively to recent reforms of the EC common agricultural policy. While French opposition effectively buried any hope of a breakthrough, the UK made clear it would continue to press for progress on the Uruguay Round and would be seeking strong language in today's final summit communiqué.

Mr Major's initiative was always risky. Officials from most G7 countries had warned that Munich was not the place to expect a breakthrough on farm trade, partly because of the September 20 French referendum on the Maastricht treaty. The warning signs were clear when, in the middle of last week, officials abandoned a 10-day push to find a basis for settlement ahead of the summit.

Nonetheless, Mr Major insisted that trade reform was his "number one priority at the summit", driven perhaps by a desire to put an early British stamp on the EC presidency.

He won some applause for his efforts.

Officials from several delegations suggested that the differences among the G7 countries were not great. Mr Theo Waigel, German finance minister, said the protagonists were much closer than at last year's summit in London. One senior EC official said all that was lacking was the political will to reach a settlement.

British officials were left putting a brave face on the prime minister's initiative. But they were unable to hide their disappointment that the Munich summit had failed to make progress on an agreement that could stimulate world growth and benefit industrialised, developing and former communist countries alike.

Now leaders face the embarrassing task of drafting a summit communiqué in which commitments to agree the Uruguay Round sound credible. Given their forceful calls both last year and in 1990 for an early settlement of the Round, this will be an unenviable task.

RESOLUTION FROM LAST YEAR'S SUMMIT

"No issue has more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round... The aim of all contracting parties should be to complete the Round before the end of 1991. We shall remain personally involved in this process, ready to intervene with one another if differences can only be resolved at the highest level." London, July 1991

Drinking partners: German finance minister Theo Waigel (left) enjoys a Bavarian wheat beer with Nicholas Brady, his US counterpart, during a sausage breakfast on the second day of the G7 summit yesterday

International co-operation sought

By Robert Mauthner in Munich

LEADERS of the world's seven biggest industrial democracies yesterday adopted a political declaration proclaiming a new non-confrontational partnership between east and west, including the Asia-Pacific region, and expressing strong support for an enhanced peace-keeping and peace-making role for the United Nations.

Emphasising that the need for international co-operation had been underlined by the instability and conflicts provoked by resurgent nationalism and inter-ethnic tensions, as in Yugoslavia, the declaration also gave a ringing endorsement of the European Community's Maastricht treaty as "a historic step on the way to European union".

"Its implementation will enhance political stability on the European continent and open up new opportunities for co-operation," the declaration said, in a clear attempt to counter the growing public hostility in several EC countries about ratifying the treaty, in the wake of its rejection by the Danish electorate.

Noting that the tasks and responsibilities of the UN had increased dramatically since last year's G7 summit in London, particularly in the field of crisis prevention, conflict management and the protection of minorities, the seven leaders expressed firm support for the efforts of Mr Boutros Boutros Ghali, the UN secretary-general, to strengthen the world organisation's role in preventive diplomacy and peacekeeping.

But though the declaration described Mr Boutros Ghali's "Agenda for peace" proposals,

Need for partnership underlined by conflicts such as that in Yugoslavia

published last week, as "a valuable contribution" to the work of the UN, British officials said G7 governments were still studying his plan for permanent UN standby forces, ready to intervene in conflicts at 24 hours' notice.

Stressing the importance of improved co-operation between the UN and regional organisations such as the Conference on Security and Co-operation in Europe, the leaders called on the CSCE summit in Helsinki later this week to establish a special security forum and to strengthen the organisation's capabilities for conflict prevention, crisis management and peaceful resolution of disputes.

The declaration stressed the need to curb the proliferation of nuclear weapons and other weapons of mass destruction and the missiles capable of delivering them. The leaders expressed their firm conviction that "the indefinite extension" of the nuclear Non-Proliferation Treaty (NPT) when it comes up for review in 1995 would be an essential contribution to this process.

Countries not yet party to the NPT were urged to join as soon as possible by the leaders. In particular, they looked forward to early adherence to the treaty, as non-nuclear weapons states, by Ukraine, Kazakhstan and Belarus, as well as the other non-Russian states of the former Soviet Union, and said they attached the highest importance to the establishment in the former Soviet Union of effective export controls on nuclear materials and weapons.

Underlining the need for the most effective possible action to safeguard nuclear materials and to prevent the transfer or the clandestine production of nuclear weapons, the declaration warned that the offer of nuclear co-operation by the western industrialised countries would, in future, be conditional on adherence to the NPT and the adoption of full-scope International Atomic Energy Agency safeguards.

A separate statement issued by the German chairman of the conference said the leaders had also adopted positions on the following subjects:

● Nagorno-Karabakh: they deplored the continued fighting in this region and urged the parties to cease hostilities immediately and to participate in negotiations. "We emphasise that we shall, on no account, recognise faits accomplis brought about by force."

● Iraq: the leaders noted that Iraq still refused to comply with all resolutions of the Security Council without reservation. They said they would continue to demand elimination of all Iraqi weapons of mass destruction and release of all prisoners. It was essential for Baghdad to comply with Security Council resolutions so that food and medical supplies could be distributed on an equitable basis.

● South Africa: the leaders called on all sides to resume negotiations as soon as possible and to make greater efforts to prevent violence. Sustainable economic growth was essential for an enduring solution of the country's problems.

MUNICH NOTEBOOK

Mulroney wins the race to be last

UNLIKELY as it may sound at such an international circus, world summits are still about personal contact, personal chemistry, about leaders getting to know each other.

So body language means something, and the great and good are still not above a little blatant physical point-scoring.

Take Monday night's reception at the Schloss Nymphenburg given by Mr Helmut Kohl. It all began with the leaders arriving one by one at the great stone staircase, solemnly ascending and joining the chancellor on the balcony to wave at what appeared to be a small crowd of loyal retainers, and a band.

As is his wont, President François Mitterrand went to inordinate lengths to arrive last. He turned up a good five minutes after all his colleagues – or so he must have thought. But it was not so. He was beaten for the slot by the scheming Mr Brian Mulroney of Canada, who must have twiddled his thumbs for ages in his hotel suite to win the race to keep the others waiting. Perhaps it was a message for Quebec?

□□□

Once on the balcony, witness phase two. As if by magic, all the great leaders somehow managed to squeeze to the front, to wave for the television cameras. All that is, except a man who has shone in Munich for his unusual modesty and shyness – Mr Jacques Delors, president of the European Commission. He was left peeping over Mr Mitterrand's shoulder.

Perhaps it was deliberate, for Mr Delors has also been pretty retiring in the debate inside the summit. In the first main round on the world economy, he said nothing at all, preferring to let the debate develop. Since then he has kept well out of the firing line.

The same cannot be said for the one man who managed to wheedle his way into that front line on the balcony when he should not have been there: Mr Jürgen Möllemann, Germany's economics minister and vice-chancellor, and the least important member of Mr Kohl's team.

Just as Mr Delors was spotted on television trying to peer past Mr Mitterrand, Mr Möllemann could be seen pushing into the picture, just under Mr Kohl's left shoulder. Those who know the man are not surprised.

□□□

Summits are also about meaningful entertainment. Mr Theo Waigel, German finance minister and leader of the Bavaria-based Christian Social Union, knows all about it.

He began his day yesterday with a massive Bavarian breakfast for the press – supposedly an intimate occasion with about 200 mostly German journalists. Pride of place on the menu went to the bulging Bavarian white sausage, a confection of veal and herbs, served with sauerkraut, sweet mustard, and even beer, for those feeling strong enough.

Not content with such a sterling start to the day, Mr Waigel turned right round and entertained his fellow finance ministers to an identical meal at 9am. Indeed, his British counterpart, Mr Norman Lamont, found the fare so good that he allegedly went back for second helpings of white sausage. There's no accounting for taste.

Quentin Peel

Russia 'must gain control of monetary expansion'

By Peter Norman and Jurek Martin

THE LEADERS of the Group of Seven industrialised democracies will today stress that Russia must gain control over its rapid monetary expansion if it is to avoid hyperinflation and grave social and political instability.

According to officials, they agreed at their summit meeting yesterday to be "friendly but frank" and spell out plainly what the G7 can and cannot do when Russia's President Boris Yeltsin joins the leaders for talks later today.

Mr Yeltsin, who arrived in Munich last night, will not leave empty handed, however. Mr Helmut Kohl, the German chancellor, yesterday underlined that the G7 would provide "help for the Russians to help themselves."

A senior US official said he would take home "a very substantial package" comprising $1bn (£521m) in credits agreed with the IMF, a pledge that the G7 will back rescheduling of official debts of $2.5bn and a further $1bn to be released by other financial institutions such as the World Bank and the European Bank for Reconstruction and Development.

A Canadian official said the rescheduling would be a "normal" arrangement of the type that the Paris Club of creditor countries provides for nations with debt problems. It would have a five-year grace period with repayments over the following 10 years.

Once rescheduling is agreed, the way would be open for G7 countries to disburse bilateral trade credits to Russia, as part of the $24bn financial support package announced in April. Altogether, Russia can expect $11bn in bilateral flows from western industrial countries under the April accord and is thought to have received between $4bn and $5bn already. But some promised credits have been held up as a result of growing arrears on existing debts.

According to Mr David Mulford, the US treasury under-secretary for international affairs, it is "possible" that the planned $6bn rouble stabilisation fund could be activated by the end of the year.

However, for that to happen President Yeltsin's government will have to obtain a firm grip on credit growth, inflation and its budget deficit so that the rouble can acquire stability. Russia will also have to regulate the financial relations with republics staying in the rouble zone to ensure its monetary policies are not undermined.

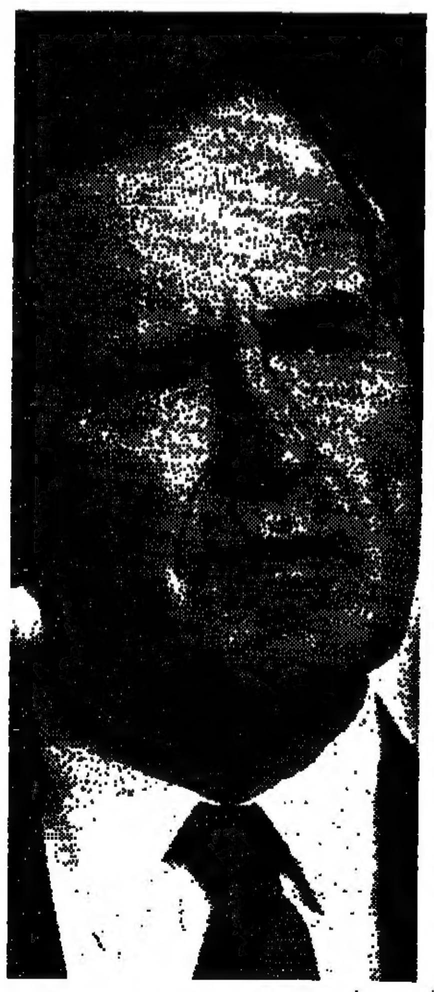
Mr John Major, the UK prime minister, is due to start the G7's talks on economic matters with Mr Yeltsin today. In addition to underlining the need for monetary stabilisation, he will stress the importance of structural reforms including privatisation and land reform and provision of a safety net to cope with rising unemployment following closure of uneconomic factories.

Russia was pressed yesterday by both the G7 in Munich and the Conference on Security and Co-operation in Europe, meeting in Helsinki, to withdraw its 130,000 troops from Lithuania, Latvia and Estonia, writes our Foreign Staff.

A statement issued for the G7 by Germany said Russia's economic difficulties did not justify keeping its troops on the territory of unwilling countries. A brief CSCE statement called for "an appropriate bilateral agreement, including timetables, for the early, orderly and complete withdrawal" of the troops.

The three Baltic states have demanded that troops should begin withdrawing immediately and complete an internationally supervised pullout by the end of next year.

Russia says it has nowhere to house those forces and no money to build accommodation and wants to extend the withdrawal until 1998.



George Bush: taking a back seat

Bush winning few votes with folks back home

By Jurek Martin in Munich

MR NICHOLAS BRADY can be more frank than most. The US Treasury secretary was going through his standard spiel for American journalists about why this summit promoting international economic growth mattered to election year voters back home when he allowed himself what amounts to a confession.

"Has it been well sold? Has that thought been well sold? No," he said. "Has a better job got to be done on it? Yes."

The more political of the White House spin doctors would not normally admit as much, but Mr Brady had put his finger on a problem. Unless some rabbit can be pulled out of the summit hat – and it is hard to see what it will be – the political benefit of President George Bush's attendance here does not appear to be very great.

Mr Bush's presumed edge over Bill Clinton and Ross Perot is experience and competence in foreign policy. This may not be decisive in a year when domestic concerns are paramount, but in a close race every little bit helps.

That was certainly the case on Sunday in Warsaw when he was able to play the role of the popular statesman abroad and bask in the warmth of his reception. With 12m Polish Americans back home, the endorsement of President Lech Walesa counts, and the pictures were lovely.

Munich is messier, mostly because the news out of here is essentially indecisive. While it may matter that serious discussions have taken place on Gatt and on Yugoslavia, as well as on the international economy, the inability on all fronts to achieve what can be portrayed as decisive breakthroughs makes the selling of the summit, to apply Mr Brady's words to the geopolitical, that much harder.

Nor, half way through the event, does it appear that Mr Bush has been playing the role of *primus inter pares*. To the extent that initiatives have been evident at all they have come from Mr John Major and Mr Jacques Delors on Gatt, Mr François Mitterrand on Yugoslavia and Mr Michel Camdessus, IMF managing director, on his negotiations with the Russians.

Given the intractability of all three issues, Mr Bush may have calculated that to be exposed on any of them would carry more risk than reward. But it has also not helped the presentation of his performance to his domestic audience that the principal conduit, the White House press corps, has been isolated at a remote hotel and fed a diet of thinnish, almost defensive, gruel. It has not resulted in favourable coverage.

This is not yet irredeemable, nor, in the greater and longer scheme of things, may it matter. But Mr Bush may recall that since Rambouillet in 1975, two of the three incumbent US presidents who hoped that summits would give them a boost – Gerald Ford in 1976 and Jimmy Carter in 1980 – went on to lose. Ronald Reagan had it easy in 1984, but by the time he got to the London summit he was already home and dry. Mr Bush is not.

Text of Yugoslav declaration

'WE, the leaders of our seven countries and the representatives of the European Community, are deeply concerned about the ongoing Yugoslav crisis.

We strongly condemn the use of violence in the former Yugoslavia and deplore the suffering inflicted upon its population.

We particularly deplore those actions directed against civilian populations as well as the forced expulsion of ethnic groups. Although all parties have contributed to this state of affairs the Serbian leadership and the Yugoslav Army controlled by it bear the greatest share of the responsibility.

We support the EC conference on Yugoslavia chaired by Lord Carrington as a key forum for ensuring a durable and equitable political solution to the outstanding problems of the former Yugoslavia, including constitutional arrangements for Bosnia and Hercegovina. We call on all parties to resume negotiations in that conference in good faith and without preconditions.

We also welcome close consultations between the conference chaired by Lord Carrington, the EC, the United Nations and the other parties concerned with the Yugoslav crisis.

These consultations could lead to the holding of a broader international conference to address unresolved questions, including issues related to minorities.

We stress the absolute need for the parties in former Yugoslavia to show the will for peace, which is indispensable to success and without which the peoples of former Yugoslavia will continue to suffer.

The tragic humanitarian situation especially in Bosnia and Hercegovina is unacceptable. We fully endorse the efforts of the international community to provide relief.

We welcome the efforts made in achieving the opening of the airport of Sarajevo and we support actions taken by UNPROFOR (UN protection force) to secure the airport. The blockade of Sarajevo must be lifted and the shelling of the town stopped in order to sustain a comprehensive relief operation.

We express our gratitude to all participants in the airlift to Sarajevo and the supply of its population.

We appeal to all parties in Bosnia and Hercegovina not to imperil the humanitarian effort.

We firmly warn the parties concerned, including irregular forces, not to take any action that would endanger the lives of those engaged in the relief operation.

Should these efforts fail due to unwillingness of those concerned to co-operate fully with the UN we believe the Security Council will have to consider other measures, not excluding military means, to achieve its humanitarian objectives.

The airlift to Sarajevo can only be the beginning of a larger humanitarian effort. Safe access by road to Sarajevo as well as to other parts of Bosnia and Hercegovina in need must be guaranteed.

The needs of the hundreds of thousands of refugees and displaced persons require further significant financial support. We are willing to contribute and ask others also to make fair contributions.

We underline the need for Serbia and Croatia to respect the territorial integrity of Bosnia and Hercegovina and for all military forces not subject to the authority of the government of Bosnia and Hercegovina to either be withdrawn or disbanded and disarmed with their weapons placed under effective international monitoring.

We call on all parties to prevent the conflict from spreading to other parts of the former Yugoslavia.

We urge the Serbian leadership to respect minority rights in full, to refrain from further repression in Kosovo and to engage in serious dialogue with representatives of Kosovo with a view to defining a status of autonomy according to the draft convention of the EC conference on Yugoslavia.

Sanctions decided by the UN Security Council in resolution 757 as well as all other provisions of relevant UN resolutions must be fully implemented.

We support the efforts of the UN peacekeeping forces in implementing the UN peace plan for Croatia in all its elements.

We demand that Serbs and Croats extend their full co-operation to the UN peace plan and make every effort to bring the bloodshed in Croatia to an end.

We do not accept Serbia and Montenegro as the sole successor state of the former Yugoslavia. We call for the suspension of the delegation of Yugoslavia in the proceedings of the CSCE and other relevant international fora and organisations.'

The Financial Times (Europe) Ltd Published by The Financial Times (Europe) GmbH, Frankfurt Branch, Nibelungenplatz 3, 6000 Frankfurt-am-Main 1; Telephone 49 69 156850; Fax 49 69 5964481; Telex 416193. Represented by E. Hugo, Managing Director. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenburg 4. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1992.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

Bosnian carve-up in the making

Judy Dempsey on why a unitary republic may never emerge

THE declaration at the weekend of a Croatian state within the borders of Bosnia-Hercegovina has prompted fears it could be too late for a unitary republic to emerge from the civil war.

European Community peace efforts in recent months may in fact have played into the hands of Serbia and Croatia, which agreed secretly last year to carve up Bosnia along ethnic lines.

The plan was drawn up in March 1991, by Croatia's President Franjo Tudjman and President Milosevic of Serbia. Negotiations were postponed after the federal Yugoslav army, backed by Serbia, invaded Slovenia in June 1991. When the federal army, supported by Serb nationalists, attacked Croatia last July, Zagreb and Belgrade re-started negotiations on Bosnia.

At the time Bosnia's President Alija Izetbegovic, said: "Any carve-up of Bosnia would be sheer madness. This republic is an ethnic-patchwork. It would lead to a terrible bloodbath."

Bosnia's Croats, then led by Mr Stjepan Kljuic, Bosnia's Moslems, and the Serbs of Sarajevo, keen to maintain the integrity of their multi-ethnic capital city, pleaded with the EC to send monitors to Bosnia. They also asked the UN to send peacekeeping troops before it became too late to keep the peace.

But Mr Marrack Goulding, the UN's special envoy to the former Yugoslavia, said earlier this year that it was impossible to send peacekeepers. "There was no consensus among the three ethnic groups in Bosnia."

The consensus did not exist for one reason. Serbia, represented by Mr Radovan Karadzic, leader of Bosnia's Serbian Democratic Party (a sister party of the ruling party in Serbia), persistently blocked any attempts by Bosnia's moderate Moslem, Croat and Serb communities to have UN peacekeepers deployed.

With little prospect of the UN playing any peacekeeping role in Bosnia, Croatia and Serbia used the opportunity to co-operate more closely in dividing the republic.

Last January, for example, President Tudjman intervened in Bosnian politics by replacing the moderate Mr Kljuic, head of Bosnia's Croatian Democratic Union (a sister party of the ruling party in Croatia), with Mr Mate Boban.

Unlike Mr Kljuic, who was born in Sarajevo and regards himself as a Bosnian, Mr Boban was born in the predominantly Croat region of western Hercegovina.

EC peace plan may have played into hands of Serbs and Croats

He considers himself a Croat nationalist. Mr Boban's promotion led to closer co-operation with Mr Karadzic.

"We saw what was happening then," said a senior UN official involved in the Sarajevo relief effort. "Although the UN was on the sidelines, we could see why outside Serbs and Croats – unlike the people from Sarajevo and other ethnically mixed cities – did not want us in. It would thwart their plans. It was up to the EC to stop this division. If you want my personal view, the EC's record in Bosnia has been shameful."

Portugal, which took over the EC presidency in January, tried to tackle the crisis. Under Ambassador Jose Cutileiro, who worked closely with Lord Carrington, chairman of the Yugoslav peace conference, Lisbon drew up a plan for Bosnia-Hercegovina.

"The EC March 9 plan was perfect for Zagreb and Belgrade, and for Boban and Karadzic," said a US diplomat. Under it Bosnia-Hercegovina's three leaders would reorganise the republic into three autonomous ethnic units of Moslems, Serbs and Croats. It was left unclear as to how the boundaries of each unit would be drawn. The plan failed to take into account that some areas were so ethnically intertwined that a simple division was not possible.

US and east European diplomats said Mr Izetbegovic was pushed into accepting the plan because he did not want to be accused of blocking it. "Essentially, the EC plan gave Croatia and Serbia carte blanche to divide Bosnia," a Hungarian diplomat says.

By the time the EC recognised Bosnia-Hercegovina in April, Serb irregulars and the Serbian-controlled Yugoslav army were blockading Sarajevo airport so as to cut off the capital from the outside world as a first step in dividing the city. They were also destabilising eastern Bosnia.

Mr Milosevic was simultaneously trying to create a corridor across northern Bosnia aimed at linking Serbia with Knin, the self-proclaimed Serbian republic in south-west Croatia.

Croatia was primarily concerned with protecting Croats in western Hercegovina and with the eventual goal of carving out a swathe of territory which would be annexed to Croatia. This strategy is reflected in last weekend's announcement of the Croatian state of Herceg-Bosnia. Earlier Mr Karadzic's Serb forces declared several autonomous Serb republics in Bosnia.

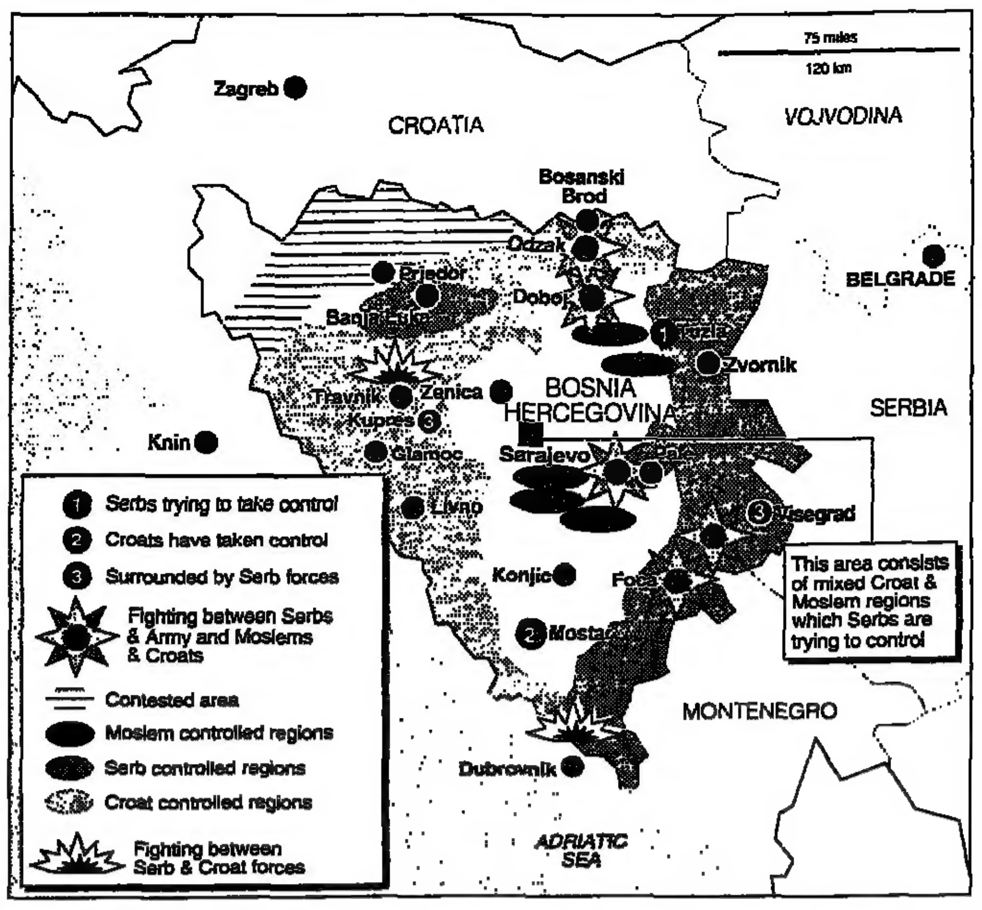
"The tragedy of all this is that the people of Bosnia – Moslems, Serbs, and Croats – have lost. Like the people of Sarajevo, they see themselves as Bosnian. They do not want ethnicity or identity imposed on them by outsiders from Croatia, Serbia, or Montenegro," according to a Hungarian diplomat.

"If they choose to be Bosnian, instead of belonging to one ethnic group, they will be forced to choose their ethnicity, or else be killed or forced to flee," he said.

UN officials, journalists, aid workers and diplomats know precisely what ethnic cleansing entails. The pattern is uniform, and methodical.

Serb forces surround the villages and towns. The citizens are given an ultimatum. Either they surrender, and as a result are often put into labour camps, deployed in the front line, or used as hostages; or else they flee – if they are lucky.

"I think we, the people of Sarajevo and Bosnia, now realise we are alone," said Mr Mirsad Becerovic, a Moslem reporter at Radio Sarajevo. Mr Dragan Miskovic, a Serb editor at the Bosnia-Hercegovina newsagency, says the people of Sarajevo will never allow outsiders to divide their city. "We will never be broken. This is our city. This is our home."



More turmoil feared in Macedonia

By Laura Silber in Belgrade

POLITICAL TURMOIL in the Balkans worsened last night as the government of the former Yugoslav republic of Macedonia fell after failing to win international recognition for its declared independence.

Collapse of the fragile ruling coalition raises serious questions about the future stability of Macedonia and casts doubt on the political future of President Kiro Gligorov, who has made futile missions abroad to seek diplomatic recognition.

The republic of 2m people – up to 30 per cent of them ethnic Albanians – has strained relations with all four neighbours: Greece, Albania, Serbia and Bulgaria.

Greece in particular has objected to its drive for recognition, fearing the effects on its own ethnic minorities. The EC and US have been reluctant to go against Greece's wishes.

There has also been pressure from the ultra-nationalist VMRO party for closer ties with Bulgaria, although the Bulgarian government yesterday pledged not to interfere in the Balkans.

There is concern, too, that Macedonia might be destabilised if ethnic Albanians seek closer links with Albania or with ethnic Albanians in Serbia's Kosovo province.

The coalition government collapsed when the republic's parliament passed a vote of no confidence in it by an overwhelming majority. Under the republic's constitution, President Gligorov has 10 days to appoint a new prime minister.

Mr Slobodan Petrovic, editor of Puls, a Skopje weekly, last night said: "The collapse could heighten instability. Mr Gligorov may not be able to appoint a prime minister within the next 10 days."

Macedonia is struggling to cope with the effects of fighting in other former Yugoslav republics, including an influx of 35,000 refugees from Bosnia.

Mr Petrovic said: "In the air we feel the scent of war...but emotions may cool down and people will realise the fall of the government is a Pyrrhic victory."

Salaries up in Turkey

By John Murray Brown in Ankara

TURKEY yesterday missed another opportunity to stem the inflationary trend of wage settlements, awarding increases to 70,000 civil servants above that budgeted in April.

The six month pay review, with rises of 25-30 per cent, is broadly in line with inflation, now running at close to 70 per cent. However it is unclear how the increase will be financed.

Investment in Romania up

By Virginia Marsh in Bucharest

DIRECT foreign investment in Romania rose by \$118m (£62m) in the first half of 1992, bringing the total since January 1990 to \$387m, according to figures released yesterday by the Romanian Development Agency.

Foreign investment in the first half of this year more than doubled compared to the corresponding period in 1991. France, Germany and Britain were the top three investors.

Soviet party asks court to lift ban

By John Lloyd in Moscow

LEADERS of the now banned Communist Party of the Soviet Union, until a year ago the commanding political force in the former Soviet Union, yesterday told the Russian Constitutional Court that a continued ban on their party would foreshadow a dictatorship.

The party officials included Mr Vladimir Ivashko, the former deputy general secretary. But Mr Mikhail Gorbachev, the former general secretary, was absent. The officials argued that the banning of the party by President Boris Yeltsin after the attempted coup last August was unconstitutional.

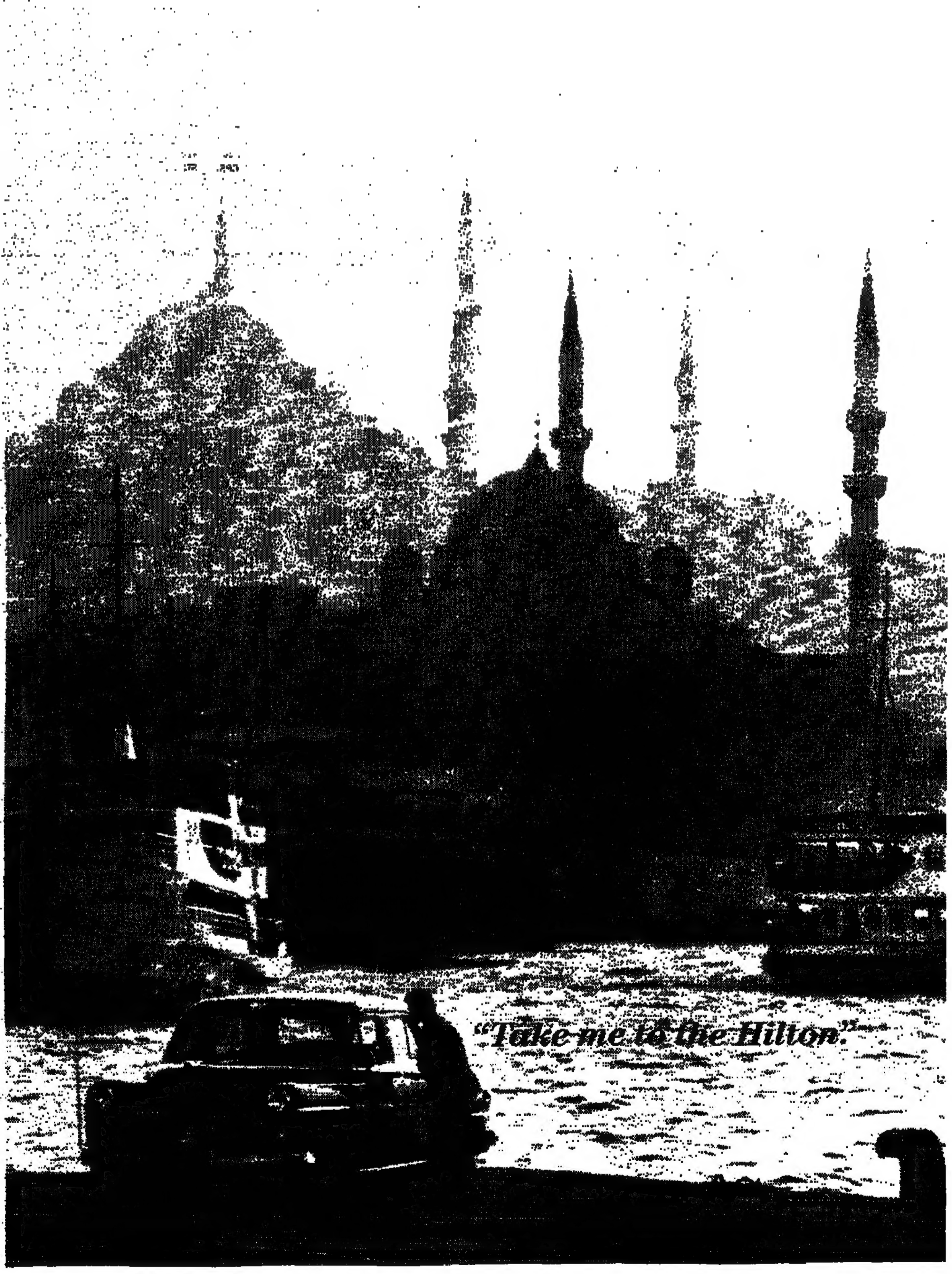
The court ruled that a second suit lodged by Mr Oleg Rumyantsev, a senior Russian deputy, alleging that the party itself was unconstitutional, will be heard separately – in spite of an earlier decision to combine the two actions.

Mr Victor Zorkaltsev, a former party official who represented the party, said the ban set a precedent which was sure to be used against other political parties and public movements. "A ban on soviets (local councils) will follow that on the party, thus setting the conditions for an authoritarian takeover," he said.

Mr Yeltsin has said that the court might find "certain slip-ups of a procedural nature" in his decrees, but added: "Remember the atmosphere in which these decrees were adopted, and the emotional wave of popular support. It was probably the only course."

● Moldova's parliament yesterday urged deployment of a multinational force to separate warring factions in the breakaway republic of Trans Dnestr, the eastern part of Moldova populated mostly by Russians and Ukrainians.

It said the force should be composed of troops from Russia, Ukraine, Belarus, Moldova, Romania and Bulgaria. Moldova was formerly part of Romania, while 100,000 ethnic Bulgarians live in Moldova.



France's siege eases but shortages grow

By William Dawkins and Alice Rawsthorn in Paris

MORE THAN a third of the roadblocks which have paralysed France for the past nine days were lifted by yesterday afternoon, but the economic damage continued to mount.

Truck drivers slowly rolled back their siege as government officials visited the blockades to explain the contents of an accord on pay and conditions, reached by drivers' representatives and the government in the early hours of the morning.

The most vulnerable industries, cars, petrol, food, tourism and chemicals, have already had to make temporary lay-offs, especially in Rhône-Alpes and the south.

Shops were running low on stocks throughout France. The Leclerc chain of supermarkets said its stocks were half as high as usual in fresh fruit and staples, such as sugar and flour. There were fears that worse was to come on the roads as it remained unclear when all the barriers would go, let alone when truckers would resume deliveries.

The Interior Ministry claimed that 60 blockades, involving 3,200 trucks, out of the original 160 roadblocks had been dispersed by lunchtime. By evening the ministry claimed that all main routes except for one section of the A6 north of Lyon. Violent clashes between truckers and police were reported.

The A1 from Paris to Lille, the main route for traffic from northern Europe and the Channel ports, was fully open in both directions, it said. The A6 from the capital to Beaune in eastern France and the A7 from Lyons towards the Spanish frontier, were also open, said the ministry. Blockades were reported to be disappearing in Brittany.

Progress was slow, as some truckers regrouped to form new barriers elsewhere and others staged *opérations escargot* (go-slows). Business leaders warned that supply shortages could force some companies to close. It was proving impossible to compensate adequately by shifting to rail and air, said the Conseil National de Commerce. Nice airport had only 24 hours' aviation fuel left.

Renault, the motor group, closed three of its four French assembly plants yesterday morning, though they reopened in the afternoon after fresh supplies arrived. The situation was "literally changing from hour to hour", said Renault. Peugeot stopped two assembly lines and a kit packaging plant in eastern France, employing 17,000 people, and warned that more lay-offs will be needed this morning. Its Citroën subsidiary closed a plant at Aulnay. Michelin, the tyre maker, warned employees that lay-offs could come at any time.

Motorway operators said they had lost FFr150m (£15.4m) on the main north-south routes alone, while the hoteliers' association estimated that occupancy was down by between 10 and 50 per cent and warned that some chains could face serious cashflow problems.

Empty shelves in a Nice supermarket. The sign reads: 'Please excuse the lack of goods due to the transport strike'

Appeal to Brussels on currency charges

By Andrew Hill in Brussels

EUROPEAN Community banks and bureaux de change still charge travellers too much and display insufficient information on exchange rates and fees, according to the European consumers' organisation.

The Bureau Européen des Unions de Consommateurs (Beuc) yesterday called on the European Commission to introduce binding legislation to improve cross-border payment systems and ease the establishment of the single market.

The Commission estimates that consumers will save more than Ecu1bn ($1.35bn) in bank charges annually, if financial institutions follow guidelines issued in March.

Sir Leon Brittan, the EC financial services commissioner, has threatened to introduce legislation if the banks do not cut their fees and improve transparency by the end of the year.

But Ms Laura Mosca, Beuc's chief economist, yesterday condemned the Commission's voluntary "users' charter" as a "public relations gimmick" and urged Sir Leon to take rapid and tough action which would bring financial institutions into line.

"The consumer's lot has not altered since 1988 when the first [Commission] recommendation on payment systems was adopted," she said.

Beuc and UFC Que Choisir, a Paris-based consumer organisation, examined the specific area of holiday money and found, for example, that two-thirds of EC banks and bureaux de change displayed no information on exchange rates and fees for travellers' cheque transactions.

The consumer groups also attacked banks and card issuers for the lack of information available to consumers using payment cards and cheques when overseas.

CBI calls on EC to tackle economic priorities

By Andrew Hill in Brussels

CONCERN about ratification of the Maastricht treaty could distract the European Community from the severe problems facing EC businesses, the Confederation of British Industry warned yesterday.

"It seems to us there is a danger of what is essentially a political question overshadowing this crisis of business competitiveness," said Sir Anthony Tennant, chairman of the CBI's Europe committee. Sir Anthony, who is also chairman of Guinness, the UK drinks group, was in Brussels to highlight the CBI's priorities for the British presidency of the EC, which began last week.

He urged the UK government to press for completion of the single European market, which would be the best way of halting the decline in EC competitiveness. However, in its memorandum to the British government, the CBI calls on the presidency to ignore "bogus single market measures", such as draft legislation to harmonise company law, data protection standards and social policy. The CBI believes these measures would add little to the creation of a single market.

Sir Anthony pointed out that the Community's share of world export markets had declined by 30 per cent in volume terms over the past decade, and Community productivity was growing at only half the Japanese rate.

But the CBI stressed that it was not advocating an interventionist policy, and sounded a note of caution about the European Commission's budget plans for the next five years. The Commission envisages targeting increased EC funds on improved research and development and professional training.

Mr Dick Price, the CBI's deputy director general, said the organisation, which represents 250,000 British companies, was "instinctively wary" about anything that might involve "officials taking decisions to pump public money into the promotion of individual sectors". "That's the quickest way of wasting people's money that anybody has ever thought of," he added.

Italians lobby Brittan on steel

By Haig Simonian in Milan

ITALY'S new government is lobbying Sir Leon Brittan, the European Community's Commissioner for competition policy, on behalf of the loss-making Ilva state steel group, just as discussions start today on initiating a formal procedure against the company's recent capital increases.

The government has argued that Ilva's two-stage L650bn ($566m) capital increase represents urgent assistance for restructuring, rather than state subsidies, which would infringe EC rules.

In a letter to Sir Leon, Mr Giuseppe Guarino, the new industry minister, has repeated the previous government's support for Ilva's plans to quote its shares and bring in new private-sector steelmaking partners.

Mr Guarino has offered to come to Brussels to explain in detail the new government's position, which is identical to that of Mr Giulio Andreotti, Italy's former prime minister. The same message was conveyed to Sir Leon yesterday by Mr Federico di Roberto, Italy's EC ambassador.

Commission concern about a possible strategy shift grew last month when Ilva announced a L498bn 1991 loss.

The results cast doubts on the company's intentions to go public, as Italian bourse rules require companies to show three consecutive years of profits before floating their shares. There have also been delays in Ilva's plans to bring in private-sector steelmakers at its big Piombino plant in Tuscany.

In its new initiative, the government has asked for more time to present its case before the Commission decides on a formal procedure.

The request follows a meeting in Brussels last week between Sir Leon, Mr Franco Nobili, chairman of the IRI state holding company which owns Ilva, and Mr Giovanni Gambardella, Ilva's chief executive. Mr Nobili then discussed the outcome with Mr Guarino on his return, leading to the latest appeal.

The government has stressed that Ilva's 1991 losses stem purely from the decision to divert capital gains from asset sales into a special reserve fund, rather than to cover operating losses. Plans for a flotation remain on course, as the company is expected to opt for the expedient of merging with an already-quoted concern. The most likely vehicle would be Dalmine, a north Italian tube-maker in which Ilva has a 66 per cent stake.

Malta's PM survives vote on EC failure

By Godfrey Grima in Valletta

DR Eddie Fenech Adami, the Maltese prime minister, survived a vote of no confidence yesterday following the decision by EC heads of state in Lisbon not to include Malta in a list of countries lining up for full membership of the Community.

The motion was tabled by the opposition Labour Party which claimed the government had deluded Maltese about the island's chances of being accepted as a full EC member.

Mr John Major, the British prime minister, had argued institutional changes would be needed if Malta were to be allowed to join.

Greece that insisted Cyprus would have to be admitted if Malta's application was approved.

Maltese government officials said yesterday the island's application is expected to come up for review again at an EC council of minister's meeting within six months – by which time the EC commission will have finalised its opinion on the Maltese application.

The Maltese now plan to put their case more forcefully. The foreign minister, Dr Guido Demarco, will have his first opportunity this month when he meets the British foreign secretary, Mr Douglas Hurd, in London.

Irish MPs told of coup at Telecom

By Tim Coone in Dublin

MR Brendan Hynes was sacked as chairman of Telecom Eireann, the state-run telecommunications company, at the weekend because he had lost the support and confidence of its board, Ms Maire Geoghegan Quinn, the Irish minister for transport and telecommunications, said yesterday.

She told parliament that she was left with a choice of either firing Mr Hynes or facing the resignation "individually or collectively" of the board. "The problem was not with the former chairman's thinking. The problem was with (his) *modus operandi* ... the chairman must secure board approval for his/her proposals," she said.

The opposition Fine Gael party attacked the government for "mismanaging" what is Ireland's most profitable public sector company and a party spokesman said: "We are not really any wiser over the reasons for the differences between Mr Hynes and the board." Telecom made a I£94m profit on a I£782m turnover last year. It has 1m customers, 13,500 employees and is estimated to be worth some I£1bn were it to be privatised.

Mr Hynes was appointed to the post just six months ago, replacing Mr Michael Smurfit who resigned last September over a controversial deal to build a new headquarters.

Mr Hynes took a hands-on approach, believing he had been given a mandate from the then telecommunications minister, Mr Seamus Brennan, to carry out a thorough review of the company ahead of its possible privatisation.

Telecom's directors yesterday went on the counter-attack saying that they "unanimously" reject Mr Hynes' criticisms and that on June 26 they passed a motion of no confidence in him as chairman.

Observer, page 13

OECD sees fall in output for Iceland

By Robert Taylor in Stockholm

ICELAND can expect a sharp decline of 2.8 per cent in its output this year with a modest 0.5 per cent improvement in 1993, according to the latest survey of the country's economy published yesterday by the Organisation for Economic Co-operation and Development (OECD).

The report blames the poor short-term outlook for the country's fishing industry which accounts for three quarters of Iceland's exports. The report also blames world aluminium prices that have forced the postponement of a multinational smelter project.

Following optimism last year, the OECD says that as a result of events beyond the country's control there is going to be further stagnation despite the relatively low level of inflation for Iceland of 7 per cent.

German companies with Iraqi trade links raided

THE German authorities carried out a huge operation yesterday to seize documents from nine German companies which are suspected of illegally exporting weapons materials to Iraq, AP reports from Darmstadt.

The action in the western Rhineland area was part of ongoing government attempts to track down businesses that supplied Iraq with parts for President Saddam Hussein's nuclear weapons programme.

The Darmstadt prosecutor's office said that 400 customs investigation officials and 11 state prosecutors were involved in the series of raids against the suspected companies. The case against the companies, which were not named, is based on a report issued in January by United Nations weapons inspectors.

The UN's report cited evidence that Iraq was trying to build special centrifuges which are needed to produce enriched uranium used for assembling nuclear weapons.

Companies throughout Germany were said to be implicated in the supply of parts.

Stung by criticism that German companies for many years sold arms to foreign dictators, the country's parliament gave the go-ahead in February for tough new weapons export controls.

NEWS: AMERICA

Clinton silent on running-mate

By George Graham in Washington

FIVE days before the start of the Democratic party convention in New York, one name is still missing from the programme: that of Governor Bill Clinton's vice-presidential running-mate.

Mr Clinton yesterday met Mr Warren Christopher, the Washington lawyer who is leading his search committee, but the Arkansas governor has succeeded in preserving a veil of mystery over his choice.

Several names are widely circulated, but most tipsters are cautious enough to include the possibility of a surprise on their short-lists. Even the timing of Mr Clinton's announcement remains in doubt, with some pundits suggesting he might wait until the middle of next week's All Star baseball game to ensure a big television audience.

Three men are most widely mentioned as possible running-mates: Senator Harris Wofford of Pennsylvania, Congressman Lee Hamilton of Indiana and Senator Albert Gore of Tennessee. Senator Wofford leapt to the top of the list yesterday when he met Mr Clinton in Washington. A surprise victor in last year's Pennsylvania senate by-election, he would confirm an emphasis on domestic issues, especially health care reform.

Mr Hamilton, on the other hand, would bring some of the gravitas and foreign affairs experience that the presumptive Democratic nominee is thought to lack. His odds lengthened this weekend when he distanced himself from Mr Clinton and the centre of the Democratic party on the issues of abortion and parental leave – although his reservations about abortion rights are similar to Mr Wofford's.

Mr Gore would bring good credentials on environmental issues, but an all-southern ticket could be risky: Yankee prejudice is alive and well, as Mr Clinton himself discovered during the New York Democratic primary campaign.

Also viewed as potential choices are three other senators: Mr Bob Kerrey of Nebraska, Mr Jay Rockefeller of West Virginia and Mr Bob Graham of Florida.

Of these six, only Mr Wofford and perhaps Mr Graham have the capacity to bring Mr Clinton a big state he might otherwise lose.

The man Democratic delegates would most like to see alongside Governor Clinton, according to a recent Associated Press poll, is Senator Bill Bradley of New Jersey. The former basketball star has, however, repeatedly ruled himself out.

In the end, the choice of vice-presidential running-mate may not mean all that much. Some analysts say it is the candidate's first chance to show himself as a decision-maker; others that voters elect a president, not a vice-president.

While Mr Lyndon Johnson won his home state of Texas for President John Kennedy in 1960, and Mr Walter Mondale of Minnesota may have helped President Jimmy Carter in 1976, most vice-presidential candidates have no effect on the outcome of the election.

Perhaps the clearest evidence of this came in 1988, when Mr Lloyd Bentsen comprehensively outscored Mr Dan Quayle, but could do nothing to rescue the losing candidacy of Mr Michael Dukakis.

Violent protests embarrass Dinkins

By Alan Friedman in New York

VIOLENCE erupted in a mainly Hispanic neighbourhood in northern Manhattan on Monday night as hundreds of demonstrators burned cars and buildings and looted shops in a rampage that left one man dead and 15 injured.

The rioting, in the Washington Heights section of New York, is an embarrassment to Mayor David Dinkins less than a week before the city hosts the Democratic party's national convention. Mr Dinkins has been trying to smarten up New York's image.

The six hours of violence began when residents marched through the streets to protest at the shooting by a policeman last Friday of Mr Jose Garcia, a member of the local Dominican community. Police said Mr Garcia was shot dead in a struggle to disarm him, but the protesters claimed he was unarmed.

The demonstrators split into smaller groups and began shouting and hurling rocks and bottles at helmeted anti-riot police. The protesters – mainly Dominican teenagers – then set cars, rubbish bins and buildings on fire. One man died after falling off the roof of a five-storey building.

A police spokesman said the violence resulted in 28 arrests, the injury of 15 protesters, two fire fighters and eight policemen, and damage to eight police cars and one ambulance.

Mayor Dinkins and other local politicians visited the neighbourhood as the violence began, seeking to reassure the Dominican community that there would be a full investigation of the circumstances of Mr Garcia's death.

Mr Brian Murtaugh, a Democrat in the New York assembly, who was an eyewitness to the violence, said the incident was "nothing like the recent riots in Los Angeles" and consisted mainly of "teenage looting and rampaging".

Cars blaze on Audubon Avenue, Washington Heights, on Monday night in protest at a Dominican resident's death

Canadian health care faces financial realities

The provinces are considering reforms including user fees, writes Bernard Simon

CANADIANS enjoy one of the world's most widely admired health care systems. Anchored by the principles of universality and accessibility, the publicly funded system has ensured that rich and poor alike are able to visit a first-class doctor, call an ambulance or get a bed in a prestigious hospital.

But keeping these principles intact is becoming difficult. A vigorous debate is under way on how a system that so many other countries have been tempted to follow should itself be reformed.

The nub of the problem is money, as underlined last month when, for the first time, the health ministers of all 10 provinces (health care is a provincial responsibility) met jointly with provincial finance ministers.

Canadians can visit a doctor as often as they like at no charge. Doctors charge provincial health plans according to a schedule of fees for various services, but with few aggregate limits. The system is funded by a variety of taxes, ranging from a portion of general government revenue to a special payroll tax in some provinces.

For years, financial considerations were secondary. But public spending on health ballooned by an average of 12 per cent a year during the 1980s to the point where Canada's spending on health care relative to its gross domestic product is now 9.2 per cent, higher than any other country with a national health system. The budget of Ontario's health ministry, by far the biggest in the country, has almost quadrupled since 1980.

Some of the spiralling costs are attributed to the bureaucratic inefficiency of a government-run system split between 10 provinces. Canadian hospitals, for instance, have traditionally been run as separate entities, each with its own board of directors trying to carve out a high profile in the community.

The recession and growing grassroots resistance to tax increases have forced governments to tighten their belts. Ontario has budgeted for a mere 1 per cent rise in funding for hospitals this year. It has warned pharmaceutical companies not to increase their prices by more than 2 per cent.

Mr Earl Berger, managing director of Canadian Health Monitor, a national health care survey, says the cuts are "forcing hospitals to do things which many of them have never done before". These include drawing up business plans and encouraging doctors to remove their patients from hospital more quickly.

At the same time, the fundamental principle of universal health care is being questioned. Critics are asking whether unlimited "free" access to services encourages patients to make unnecessary demands on doctors and hospitals. Similarly, could doctors, whose income is partly determined by how often they see their patients, be more sparing in their choice of tests and treatments? Does every hospital in every city need the most modern equipment to treat a wide variety of ailments?

Changes are already under way. New Brunswick, for example, hopes to improve efficiency and bring down administrative costs by replacing 53 hospital boards in the province with eight regional boards. Ontario has warned commercial laboratories that from next April payments will be cut by half when the number of tests grows by more than 2 per cent a year. Health care administrators are trying over the longer term to ease the pressure on hospitals by putting more emphasis on walk-in clinics, day surgery and homecare.

Doctors are playing a bigger role in hospital administration. But they are also being encouraged to move towards what some derisively call "cookbook medicine". Instead of carrying out simultaneous tests and treatments, they are being encouraged to move stage-by-stage from one procedure to the next.

Some politicians have promised that such reforms to improve the efficiency of health care delivery will be sufficient to ease the financial crunch. The Ontario government said in a recent paper that its reforms would ensure "our current system is maintained and actually enhanced".

Others, however, predict more fundamental changes. Quebec set warning lights flashing last year when it proposed a C$5 (£2.20) "orientation fee" to be levied when a patient insisted on visiting a hospital casualty ward without first going to a family clinic, or made an appointment with a specialist without referral by a general practitioner.

A political outcry forced Quebec to drop the idea, but it is toying with others that would have much the same effect. One is a surcharge on personal income tax, based on the volume of medical services used during the year. The surcharge would have an upper limit of C$300-400 a year for the average family.

Several provinces are gradually narrowing the definition of universal and accessible care. Ontario sets strict limits on payments for medical care outside Canada – a substantial burden, for instance, on the people who have retired to Florida. Quebec is considering removing some services, such as eyesight examinations and prescriptions for the elderly, from its health plan coverage.

Mr David Levine, director-general of the Nôtre Dame hospital in Montreal, says that "piece-by-piece, there's going to be a way in which this is going to be introduced". Mr Berger predicts that at least one of the provinces will introduce some form of user fee within five years.

The challenge for politicians is to put the changes in place without unleashing a public furore. Though the long-term result may be a significantly different system, Mr Levine predicts it will be achieved only through small, incremental steps.

NEWS: WORLD TRADE

Fury over call for US quota on Japanese cars

By Nancy Dunne in Washington

AMERICAN car importers and foreign car manufacturers yesterday attacked as "bold-faced protectionism" trade legislation to be discussed today which would force Japan to negotiate a quota of 1.65m imports or face US retaliation.

The amendment to this year's House trade bill is sponsored by Democratic Congressman Sander Levin of Michigan and House Majority Leader Richard Gephardt. Despite Bush administration insistence that the legislation would be vetoed, opponents say it will be difficult to defeat because the House Democratic leadership wants to use it as a campaign issue at next week's Democratic convention.

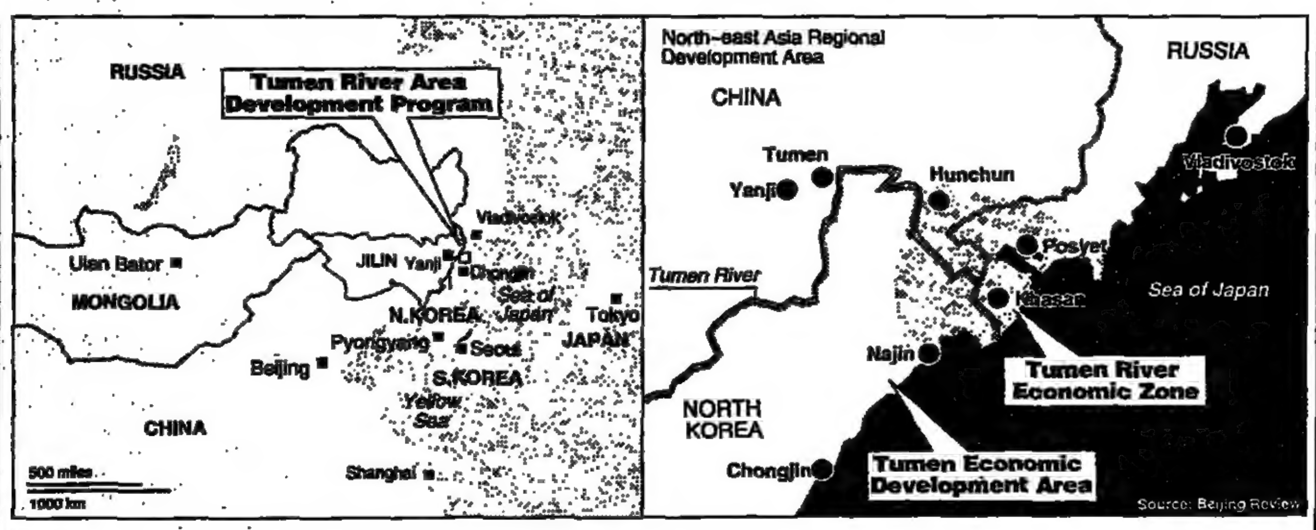
Opponents are also fighting a requirement that Japanese "transplants" – factories in the US – increase their use of American-made parts to 70 per cent in the next two years. They argue that such restrictions are the type of barriers to trade and investment the US is seeking to eliminate in the Uruguay Round of world trade liberalisation talks under the aegis of the General Agreement on Tariffs and Trade.

Mr Walter Huizenga, of the American International Automobile Dealers Association, yesterday said the legislation would have "a chilling effect" on foreign investment in the US. About 32,000 US workers are now employed by Japanese "transplants".

Even as the importers and "transplants" were sending lobbyists around Capitol Hill, congressmen have been digesting a recent report, issued by a joint US-Canada panel, established under the Free Trade Agreement. It says that unless the North American industry improves its competitiveness, 100,000 jobs could be lost in the next five years.

The report warned that US costs were rising, while Japanese costs had declined. "As a result, the Japanese industry now appears to possess a major advantage over its North American rivals in internally generated funds available for capital investment and to enhance future competitiveness," it said.

● The three trade ministers of the US, Canada and Mexico will meet this weekend in Washington, according to Canadian sources. They will seek to resolve disagreements over trade in vehicles, agriculture and energy, blocking completion of a North American Free Trade Agreement.



Rotterdam of the east takes shape

Yvonne Preston reports on Asia's dream port project

PLANS for a vast port complex and trading zone in north-east Asia, sprawling over the boundaries of China, North Korea and Russia, are under way after securing the support of no fewer than six governments.

The Tumen River Area Development Programme (TRADP) is centred on a key Sea of Japan coastal area and is optimistically described as "the future Rotterdam of the Far East." Its estimated cost is at least $30bn over 20 years.

The main achievement so far of TRADP, which is sponsored by the United Nations Development Programme (UNDP), has been the diplomatic feat of bringing together government delegations from the two Koreas, China, Russia, Mongolia and Japan.

It would be hard to imagine six more disparate countries. The two Koreas, locked in mutual hostility for 40 years, signed a non-aggression pact only last December, and China has yet to establish formal relations with South Korea. Russia was not even an independent country when the TRADP inaugural meeting took place in February last year. Japan has no diplomatic relations with North Korea and is in bitter dispute with Russia over the Kurile islands, which were occupied by Soviet forces after the second world war.

No other intergovernmental organisation exists in this part of the world, the UN development agency says, and the formation of a TRADP management committee is the first time the six countries agreed to work together under UN auspices.

The 516km Tumen river rises in China's Jilin province and has been the border between China and Korea since ancient times. Sino-Soviet rivalry, the Korean war and Japanese militarism have kept the area backward and undeveloped. The dream is to turn the marshes and rice paddies of the Tumen river delta into a metropolis of 500,000 people and entrepôt to rival Rotterdam and Hong Kong. UNDP officials acknowledge that the project is still only a dream.

The delta provides landlocked Mongolia with its nearest outlet to the sea. The hinterland is rich in resources, and the scale of the trading bloc could rival the European Community.

The regional co-operation project consists of an inner economic zone of around 1,000 sq km. A second and broader development area takes in the Russian port of Vladivostok, Chongjin in North Korea and the Chinese city of Yanji. The outer North-east Asia Regional Development Area occupies an area of 370,000 sq km.

The Asian Development Bank and the World Bank have shown interest in the project, which will also seek funds from Japan and South Korea. The next stage is an initial feasibility study for which the UN agency has allocated $3.5m.

The involvement of North Korea in the planned development represents the country's first step towards opening its economy after decades of isolation.

NEWS IN BRIEF

Uruguay sound on trade, says Gatt

By Frances Williams in Geneva

URUGUAY's trade regime has gradually changed from a highly protected to a relatively liberal one. But the benefits are being reduced by high trade barriers in rich countries to Uruguay's farm and textile exports, the General Agreement on Tariffs and Trade (Gatt) says in a report yesterday

It warns that Uruguay risks lagging behind the economic liberalisation of Brazil and Argentina, its giant neighbours and fellow members with Paraguay of the Mercosur common market. This could mean rapid and painful structural adjustment in Uruguay's import-competing industries when trade barriers are scrapped within Mercosur from January 1995.

The Gatt council yesterday welcomed Uruguay's progress in liberalising trade and deregulating its domestic market, despite economic difficulties. The report notes that average tariffs have fallen from nearly 700 per cent in 1968 to 21.5 per cent by January 1992. The council urged Uruguay's trading partners to support the reform process by reducing obstacles to its exports. Entry barriers and subsidised exports under EC and US farm policies have particularly hit Uruguay's exports of beef and dairy products. Uruguay, which hosted the launch of the Uruguay Round of world trade talks in 1986, is a member of the Cairns Group pushing for cuts in farm subsidies.

John Brown wins turbine order

John Brown, part of Trafalgar House's engineering division, has won a contract worth nearly £100m ($191m) to build and supply 12 38MW gas turbines for Abu Dhabi, writes Andrew Baxter. The deal, thought to be the world's largest order for this kind of heavy-duty gas turbine, is further confirmation of the revival of the Middle East power plant market. It is understood that John Brown clinched the order by being able to offer a short delivery time.

Clash threatens dam project

Work on a multi-million-dollar dam project in Malaysia in which the British company Balfour Beatty has a major share is threatened by arguments between local authorities and the country's main electricity company, writes Kieran Cooke in Kuala Lumpur.

The authorities in the state of Kelantan, on Malaysia's east coast, have blocked roads leading to the $710m Pergau hydro-electric dam. Kelantan, a Moslem state controlled by the opposition Parti Islam, is in dispute with Tenaga Nasional, the recently-privatised electricity utility, over payments of water rights.

Andes oil pipeline agreed

The state oil companies of Chile and Argentina, Enap and Yacimientos Petroliferos Fiscales, have signed a letter of intent to build a 424km oil pipeline across the Andes at an estimated cost of $200m, writes Leslie Crawford in Santiago.

The pipeline, which will be ready in late 1993, will link oil fields in the Argentine province of Neuquen to an Enap refinery in Concepcion, southern Chile. An extension to the port of San Vicente will give Argentina a Pacific outlet for its crude exports.

Exporters in whaling warning

Norwegian businessmen fear the country's decision to resume the killing of minke whales may hit exports.

Mr Richard Fuglesang, president of Ajungilak, which produces sleeping bags, said in a letter to the prime minister, Mrs Gro Harlem Brundtland, yesterday that following a two-day visit to Britain it was clear that sales could suffer as consumers avoided Norwegian products.

Barter trade to grow with CIS states despite big risks

By Leslie Colitt in Berlin

COMPENSATION trade, a sophisticated form of barter, will grow in importance with the financially-pressed states of the former Soviet Union, according to Mr Hans-Joachim Skrobanek, a specialist in this field who heads Finance by Trade (FTB), a subsidiary of Berliner Bank.

The risks involved are considerable and grow with the number of official approvals needed before Russian and Ukrainian products, for example, can get from the producer to the western buyer. "Each one of the official links can fail to keep a promise or simply break it," he said.

Nevertheless, compensation trade, or buy-back as it is also known, was likely to make up a significant proportion of German trade with CIS republics and some eastern European countries for some time to come. One reason was that the German government was unlikely to expand its Hermes export credit guarantees for CIS beyond the DM10bn ($6.5bn) promised by Chancellor Helmut Kohl.

Mr Skrobanek estimated that in 1990, 25 per cent of west German exports to the Soviet Union were based on compensation trade and variations of it. The percentage rose sharply in 1991 when many Russian companies carried out non-approved barter deals with the west.

FTB, which does nearly DM150m ($98.6m) in business with the east – mainly Russia – is the only compensation trade company owned by a German bank. Nearly half its customers are east German companies whose trade with the CIS has declined greatly.

There has been a recent fall, however, in barter-type transactions with the CIS as deals need to be individually approved by the Russian government. This has been a reaction to an estimated outflow in 1990/91 of DM12bn-DM15bn which was deposited by Russian companies in western bank accounts after the old approval mechanism broke down, Mr Skrobanek said. The companies are now forced to pay nearly half of the hard currency they earn to the state and receive roubles in return.

The Russian government's refusal to allow Russian companies to deposit their earnings from barter trade in western banks has made barter deals more risky for western exporters.

Oil, precious metals and chemicals remain the products most commonly bartered by the Russians but even these run up against logistical problems. Heating oil and metal ore are partly shipped via Baltic ports but the newly-independent Baltic republics frequently restrict the amounts, and the ports of Leningrad and Kaliningrad cannot cope with any increase.

Romania and Bulgaria, whose market economies are rudimentary, have the greatest need for barter trade in eastern Europe. By contrast, only 5 per cent of the trade with Poland, Czechoslovakia and Hungary – all of which have internal convertibility of their currencies – is based on barter deals.

Australia set to cut interest rates again

By Emilia Tagaza in Canberra

AUSTRALIA is expected to cut official interest rates this week by as much as a full percentage point to 5.5 per cent.

The last cut was made only two months ago but further confirmation of a stalling recovery from the recession has pushed the urgency of another easing.

Financial markets anticipate a government announcement today or tomorrow, following a meeting of the Reserve Bank yesterday where a cut in rates was top of the agenda.

Additional pressure for another cut emerged yesterday with the release of the preliminary budget deficit of A$9.4bn (£3.66bn) for the year which ended in June. This is higher than the A$9.3bn revised forecast in May and double the original A$4.7bn estimated in August last year.

The government attributed the deficit to the slower than expected economic recovery which had led to further falls in revenue and large increases in welfare payments.

Revenue collections in 1991-1992 totalled A$93.3m, representing 24.3 per cent of estimated gross domestic product. In a joint statement, Mr John Dawkins, the federal treasurer, and Mr Ralph Willis, the finance minister, said this was the lowest share of government revenue to GDP in 12 years.

Outlays rose to A$102.7m from the original estimate of A$101.5m, mainly due to the spending programme introduced in February by the prime minister, Mr Paul Keating, to stimulate the economy. The programme was designed to bring unemployment below 10 per cent before the election scheduled for mid-1993.

The Reserve Bank also released figures yesterday showing stagnant lending to business. Credit provided to the private sector by financial intermediaries rose a seasonally adjusted 0.2 per cent in May, after falling 0.3 per cent in April. Total credit in the year to May fell 1.6 per cent.

Another report due tomorrow will bring more bad news for the government. The unemployment figure for June will be released and most expect little change from the 10.6 per cent recorded in May.

The run of bad economic news has dented confidence in Mr Keating's government. Only three months ago, Mr Keating appeared to have successfully turned around the battered image of the government left by his predecessor, Mr Bob Hawke. However, Mr Keating will attempt to regain some ground in a forthcoming "employment summit" where he is expected to announce more steps to create jobs.

Saudi banker in BCCI case quits

By Mark Nicholson in London and Alan Friedman in New York

SHEIKH Khalid bin Mahfouz yesterday resigned as the chief operating officer of National Commercial Bank (NCB), Saudi Arabia's biggest and best-connected bank, saying he would devote his "full energies" to fighting fraud charges brought against him in the Bank of Credit and Commerce International (BCCI) affair.

Sheikh Khalid's resignation comes less than a week after he and a London-based associate were indicted in New York on charges that they had schemed between 1985 and 1991 to defraud depositors, regulators and auditors of the collapsed BCCI.

The indictment, announced by Mr Robert Morgenthau, the Manhattan district attorney who last year brought the first fraud indictments against BCCI, alleges that Sheikh Khalid and Mr Haroon Kahlon, an associate, fraudulently obtained more than $300m from BCCI depositors and other customers.

The charges are diplomatically sensitive, because of the prominence of the bin Mahfouz family in Saudi Arabia, where NCB is considered to have close ties to the royal family.

Sheikh Khalid reacted angrily, vowing to fight the indictment and calling the charges "completely unwarranted". In New York yesterday, an aide to Mr Morgenthau noted that NCB had not been indicted in the BCCI affair, but he said the bank remained under investigation.

Sheikh Mohammed bin Mahfouz, chairman of NCB's management committee and Sheikh Khalid's brother, said in a statement from the bank's Jeddah head office he had "reluctantly accepted" the resignation, which he called "a sacrifice he believes is in the best interests of the bank". Sheikh Mohammed will take operational control of NCB.

The statement quoted Sheikh Khalid saying "he cannot allow the continuing smooth operation of the bank to be interfered with in any way" as a result of the indictment.

"We are fully confident of Sheikh Khalid's innocence," the statement said. "God willing, he will be vindicated."

Sheikh Khalid's resignation clouds the immediate outlook for NCB, which holds around a third of Saudi Arabia's total bank deposits, claimed assets in 1991 of SR82.3bn ($22bn) and is widely viewed as the Saudi royal family's bank, but which has produced no full financial figures since 1989.

Capital Intelligence (CI), the Arab world's leading bank rating agency, last month suspended NCB's rating on the ground that it had produced no accounts for 1990 and 1991 and said in a circular to clients that the bank's ownership structure, as an unlimited liability partnership, was "inappropriate for its size".

The bank, which prizes the confidentiality afforded by its position as Saudi Arabia's sole privately-held bank, is majority owned by the bin Mahfouz family, with the kingdom's wealthy al-Kaaki family holding the remainder.

NCB closed its London branch in May, justifying the move on cost grounds. However, the Bank of England is widely believed to have been uncomfortable that the bank, which had a loan book worth some $1bn in London, had released no figures since 1989.

A youth confronts soldiers yesterday surrounding the house of ANC member George Sgomora who was killed in a hand grenade attack in the township of Vosloorus

S African sackings likely to fuel militancy

By Philip Gawith in Johannesburg

TWO LARGE-SCALE sackings of striking workers in South Africa are expected to fuel shopfloor militancy and bolster the mass action campaign of the African National Congress and its trade union ally, the Congress of South African Trade Unions (Cosatu).

The dismissal this week of 6,000 workers at the Toyota assembly plant in Durban follows the sacking of 7,400 state health workers by the Transvaal Provincial Administration (TPA). Although both strikes preceded the start of the mass action campaign, they have assisted Cosatu's efforts to raise the level of industrial activity culminating in a general strike next month.

A Cosatu official said the dismissals were "adding fuel to the fire" of already high levels of industrial action. Andrew Levy and Associates, a labour research group, estimates that 650,000 working days were lost in the first half of 1992 compared to 375,000 in the same period in 1991. There is already evidence that the large-scale dismissals will provoke widespread solidarity action from other unions.

Meanwhile Mr Nelson Mandela, the ANC leader, yesterday held talks with business leaders about the political impasse in the country. The business group held similar talks last week with President F W de Klerk and with Chief Mangosuthu Buthelezi, the Inkatha leader. Mr Mandela said he was "very encouraged" by the talks which had "narrowed the gaps between us".

The business delegation conveyed its disapproval of mass action saying "a groundswell of opinion is rising that we cannot support actions which will further damage or destroy the economy or bring more violence or disruption in its wake." Toyota claim that strike activity this year has cost them 45 days of production or R675m (£128m) in lost turnover. Last month the Reserve Bank reported that the economy had contracted at an annualised rate of 2 per cent during the first quarter.

The three-week strike at Toyota arose out of an earlier strike – the union, the National Union of Metalworkers, took exception to the fact that management paid shop stewards for negotiating during the strike, but did not pay workers. The hospital workers' strike concerns wage demands. The employees had until yesterday to provide reasons why their dismissals should be reconsidered.

Indian inflation turns downwards

Rao confident of surviving scandal

By David Housego in New Delhi

THE INDIAN government of Prime Minister P V Narasimha Rao faces a new session of parliament today with growing confidence that the opposition will be unable to substantiate charges of ministers' involvement in the Bombay financial scandal.

The Finance Ministry also believes that inflation is at last turning downwards. It has been running at 12 to 13 per cent over the past year and has provided the principal weapon for critics of the government's economic reforms.

Mr Manmohan Singh, the finance minister, said that he was confident that inflation would come down from month to month to a single digit rate by the end of the financial year.

But, anticipating a big assault from the opposition over its handling of the financial scandal, the government seems ready to yield ground by agreeing to the setting up of a joint parliamentary commission to investigate the scandal.

The opposition has demanded an independent inquiry on the grounds that both the Reserve Bank and the police investigations have been carried out by arms of the government – and have thus dodged uncomfortable questions over the involvement of ministers and senior government officials and over the role of the central bank.

Such an inquiry is likely to put further pressure on Mr R. Venkitaramanan, the Reserve Bank governor, who is at risk of becoming the main scapegoat of the scandal.

Mr Singh this week expressed his continuing confidence in the governor and spoke of the difficulties he had faced. But the government also seems prepared to sacrifice him if need be.

All the opposition parties are intending to vote against the government in a no-confidence motion over its handling of the scandal, which is expected to be tabled in the early days of the session. Though the government has only a bare majority, its co-ordination is better than that of the opposition. In addition, none of the opposition parties is yet ready for an election.

At least two ministers are constantly named in private conversations in Delhi as having an involvement in the scandal. But ministers and senior officials seem increasingly confident that the opposition does not have material to substantiate charges of wrongdoing.

The government's confidence has been strengthened by some signs of improvement in the main economic indicators. The inflation rate has dropped to just over 11 per cent and government economists believe that the year-on-year rate will descend to single digits in the next few months.

A rise in imports in the February to May period is seen as a sign of industrial production picking up and officials are encouraged by the large number of companies planning to focus more on exports.

But with industrialised economies in prolonged recession, there is much uncertainty over how strong the growth in export performance will be.

There is also uncertainty over whether the government – already on the defensive over the financial scandal – will have the courage to push ahead with unpopular economic decisions.

Delhi allows private TV on state network

By Shiraz Sidhva in New Delhi

INDIA is for the first time to allow private broadcasters to use the state-owned television network.

The government announced yesterday that it would allow private companies broadcasting time on a second channel beamed to main cities.

The partial privatisation, to start next month, is a belated response to the competition being faced by Doordarshan, the state-owned television service, from CNN, the BBC, Star TV and other networks using satellite links.

The second channel, focusing on audiences in Bombay, Delhi, Calcutta and Madras, will show independently made programmes and will be governed by a Broadcasting Council intended to be free of government control.

Independent television producers have welcomed the government's decision.

The council will be made up of nine people drawn from the media and performing arts, all of whom will have experience of electronic media.

Producers hope that the quality of programmes on Indian television will improve substantially once private producers "with proven track records" are issued licences by the Council for an initial five-hour time slot rising to nine hours.

The Information Ministry, which has faced widespread criticism of its mediocre programmes and arbitrary censoring, hopes to increase its commercial revenue substantially from advertising on the new private channel and from the licence fees of cable operators.

Taiwan eases entry curbs on dissidents

TAIWAN yesterday cut from 282 to five the number of dissidents barred from returning to Taiwan from abroad, AP reports from Taipei.

"The government allows entry of all Taiwanese living abroad, except those with records of violent acts," said Mr Wu Poh-hsiung, interior minister. Officials have said up to 800 people were barred from entry three years ago.

Wu declined to identify the five still on the blacklist. But they are believed to be pro-independence group leaders, including Mr Shih Ming, head of the Tokyo-based Independent Taiwan Association.

The announcement came after MPs yesterday approved revisions to the National Security Law, which was enacted after Taiwan lifted 38 years of martial law in 1987.

Labour shortages hold back Singapore growth

TIGHT labour supply will limit Singapore's economic growth this year to between 4 and 6 per cent, according to the Monetary Authority of Singapore (MAS). The economy grew by 6.7 per cent in 1991, AP reports from Singapore.

Rising labour costs will curb exports, the MAS, Singapore's central bank, said in an annual report. Weak US demand is likely to dampen exports by a leading Singapore industry, computer disk drive manufacturing, and consumer electronics will be depressed because of high inventories in Japan and Europe, it said.

Overall, however, "increased spending on public infrastructural projects, a revival in exports to the US and increased trade with China will provide the main impetus to growth." Pharmaceuticals and special chemicals should continue to prosper, while petrochemical exports will be hit by a regional glut, the report said.

"The appreciation of the Singapore dollar since 1988 served to neutralise foreign inflationary pressures and exerted a cooling effect on the overheated labour market," said Mr Richard Hu, MAS chairman and finance minister.

"A weaker exchange rate may indeed help achieve higher export and gross domestic growth in the short term. It comes, however, at the cost of higher inflation, which must eventually undermine competitiveness," said Mr Hu.

"There is no lasting gain in output arising from a weaker currency. More often than not, persistent inflation erodes investor confidence, engenders social divisiveness, and impairs long-term economic growth."

Syria destroys Lebanese drug crop

By Ian Hamilton Fazey

OPIUM AND cannabis production in Lebanon's Bekaa Valley – a prime source of funds for Hizbollah Islamic fundamentalists – has been wiped out by the Syrian army.

The valley has long been one of the world's principal centres for growing illegal drugs but policing was non-existent during Lebanon's civil war.

However, the subsequent large presence of Syrian troops in Lebanon and Syria's powerful influence in the country, with which Damascus signed broad "co-operation" agreements last year, made the task of clearing the Bekaa feasible.

The world's other main illegal opium production areas are in Afghanistan, Pakistan and south-east Asia. New fields have also been sown this year

in the former Soviet Union, with traffickers taking advantage of current turmoil.

The UN says the Bekaa crackdown is not going to stop trafficking, but it has disrupted European supplies. As a probable result, there have been shortages of cannabis on the illegal British market for several months.

The Syrian crackdown started soon after talks between President Hafez al-Assad and Mr James Baker, the US secretary of state, about the time of last year's Gulf War.

Mr Baker is believed to have suggested that tackling Lebanon's role in supplying a significant part of the world illegal drugs market might be one way Syria could improve relations with the US and western Europe.

The United Nations Drug Control Programme in Vienna carried out a snap inspection five weeks ago, when poppies should have been in bloom and cannabis plants growing strongly. Mr Bernard Frahi, a former police superintendent in France who led the inspection, said yesterday the crackdown has dealt a strong blow to illegal drug trafficking.

"The Syrian army just got on with it, beginning last year when they seem to have eradicated about 80 per cent of the crops. This year they finished the job," Mr Frahi added.

Some groups in Beirut claimed growing is still going on, but were unable to produce evidence to the UN's three-man team, which had free access to the valley. Photographs taken by the team show the Bekaa – about 75 miles long by eight miles wide – looking like a large ploughed field. Two years ago, photographs from similar positions show purple-white opium poppies as far as the eye can see.

The team's unpublished report on the inspection says there has been an immediate effect on the drugs market. Raw opium for processing into morphine and heroin is now so short its price in Beirut has rocketed from $70 a tonne to more than $500.

According to Syrian estimates, up to 12,500 acres in the Bekaa were planted with opium and up to 40,000 acres with cannabis, yielding 50 tonnes of opium and 1,000 tonnes of hashish. The opium would then be refined into about five tonnes of heroin.

The Lebanese civil war allowed easy bulk shipment by sea, with profits helping to fund the fighting. With peace and tighter Syrian control, six "controlled delivery" operations have been carried out from Lebanon this year, leading to drug seizures in Germany, the US, Britain and France. Mr Frahi said tighter policing was also preventing drug smuggling across Syria.

Cultivation in the Bekaa was split between a large local family with 5,000 members, Hizbollah activists, smaller families and individual farmers. Many are now struggling to subsist by growing lettuce, tomatoes and potatoes, but are losing money because of the cost of seeds, fertiliser and irrigation.

Illegal drugs are low-cost, low-maintenance crops, and farmers told the UN team they will revert to growing them if they get the chance. However, Syrian generals say there will be no let-up.

Israeli chorus for privatisation sets Labour's agenda

Hugh Carnegy reports on a stunted programme that could provide much-needed funds but divide the new government

AT FIRST sight it looks like a case of the cat being asked to hand over the cream: Israel's Labour party, in the past a diligent builder of socialist structures, is facing a near unanimous chorus of advice to speed up privatisation when it takes over the government next week.

Far from mewling in protest, these days Labour leaders wrinkle their noses at the notion of state control of industry. In fact, they queue up to voice the merits of selling-off the great chunks of Israel's productive capacity that have accumulated in government hands.

"In principle we have to review everything," says Mr Avraham Shochat, a senior Labour member of parliament and candidate for the post of finance minister.

Privatisation has become accepted in Israel as an essential element in generating sufficient growth and funds to cope with mass immigration from the former Soviet Union. A report on Israel, published this month by the Economic Intelligence Unit (EIU), says that the government could raise between $7bn and $10bn from asset sales over the next four years.

> The government 'could raise between $7bn and $10bn from asset sales over the next four years'

That would represent a significant part of the $50bn the Bank of Israel estimates is required to attract and absorb a target of 1m Jews from former Soviet territories within five years.

But though the outgoing administration was controlled by the avowedly free-market Likud party, privatisation steps have been painfully slow since First Boston of New York produced a plan in 1988 for privatising 24 companies within four years.

Partial stakes in key companies, such as Israel Chemicals and Bezeq, the telecommunications monopoly, were sold on the Tel Aviv Stock Exchange. Some small companies, such as Maman, an airport cargo handling outfit, have been sold. But government control over almost all of the biggest state companies remains intact.

Labour will also have to tackle the complex problem of the country's big four banks, which together control the vast majority of the local banking system and which themselves are big industrial owners. Since a $7bn government bail-out in 1983, following a share price collapse, a majority of the shares in Bank Hapoalim, Bank Leumi, Israel Discount Bank (IDB) and Bank Mizrahi have been held by the state, although without management control.

Bidding is under way for Bank Mizrahi and Bank Igud, a unit of Bank Leumi. Minority portions of Bank Hapoalim, Bank Leumi and IDB are projected for a stock exchange flotation. But legislation placing the banks under state control if they are not sold off by next year will need to be amended if nationalisation of the others is to be avoided.

The government's tendency to use the banks as instruments of policy, and a long record of bad debts, has raised questions over whether foreign investors will be willing to come into the market. To date, no foreign banks operate in Israel, bar a partnership that Barclays of the UK holds in an offshoot of IDB. Without foreign investors, potential local buyers – such as the Histadrut trade union federation, which would like to repurchase its pre-1983 ownership of Bank Hapoalim – will find it hard to raise the necessary funds.

Mr Pinhas Landau, author of the EIU report, believes that any structural or ideological impediments to the process of privatisation will soon be swept aside by a more pressing concern: the fiscal pressures on the new government imposed by immigration. "The government," he says, "will have to have the money and that's what will drive them."

> Rabin 'will face formidable interest groups in his party that interpret privatisation in a peculiar way'

Labour certainly sees privatisation as a vital source of funds for much-needed infrastructural investment in the economy. But some advocates of market reforms in Israel continue to doubt Labour's commitment to getting the government out of decision-making in industry and business.

Mr Shochat himself said there were three categories of company in which Labour envisaged the government continuing to retain a controlling 26 per cent shareholding. He described these as "natural monopolies", companies of strategic importance to the country, and those which play a vital security role.

These encompass Bezeq and the Electric Corporation in the first category, Israel Chemicals in the second and Israel Aircraft Industries in the third. Mr Yitzhak Rabin, the Labour leader, has added El Al to the list.

As one of its last acts, the outgoing government at the weekend ruled that Zim, the merchant shipping company, should also remain under government control.

"I think Rabin honestly wants to see privatisation pursued," says Mr Daniel Doron, head of the Israel Centre for Social and Economic Progress. "But he will face formidable interest groups in his party who will interpret privatisation in a peculiar way. I don't think many of them realise what private ownership means, what a regime of competition is and why it is important to the economy."

NEWS: UK

Fourth Trident ordered ● Gulf war lessons ● Commitment to smaller, better forces

UK prepares global defence strategy

By Daniel Green and Alison Smith

BRITAIN yesterday set out its post-cold-war defence strategy designed to allow the UK to respond to a threat anywhere in the world rather than just in Europe.

"The strategic environment has been transformed over the last four years," said Mr Malcolm Rifkind, defence secretary, in the defence government policy document (white paper) published yesterday.

The distinction between tasks in Europe and "out of area" had become blurred, the white paper says.

Policy aims in place since 1975 should be replaced with three new overlapping roles:

● The protection and security of the UK and dependent territories, even when there is no external threat.

● Insurance against any external threat to the UK and its allies.

● Promoting the UK's wider security interests through the maintenance of international peace and stability.

Backing this up, the government confirmed its order for a fourth and final Trident nuclear submarine to be built by Vickers at Barrow-in-Furness, Cumbria in north-west England.

Britain's new defence roles replace a four-pronged policy which specified commitment to Nato, the UK, mainland Europe, and sea power in the eastern Atlantic and the English Channel. Mr Rifkind said that Nato nevertheless remained the "bedrock" of UK defence policy.

Defence spending would rise slightly in cash terms over the next three years, the white paper says. Mr Rifkind said this still represented savings of up to £4bn a year in real terms by the end of that period. Such cuts were "right and proper" – Britain was not a global power and its ability to contribute to worldwide operations would be limited, he said.

"We are a middle-ranking European power – a small island in the northern hemisphere," Mr Rifkind said.

Defence has already been identified by the treasury as ripe for cuts in this year's public spending round.

Mr John Townend, the chairman of the Conservative backbench finance committee, said the UK could take on an international peace-keeping role, but the new strategy should not mean that the UK had to bear a "disproportionate" share of the cost.

The white paper reveals that the UK will have received £2bn in cash from Gulf war allies in payment for the UK's involvement. The result is that the war will have cost the UK £500m.

Opposition spokesmen condemned the white paper as a "catalogue of lost opportunities" which showed no evidence of fresh thinking.

Mr Martin O'Neill, the shadow defence secretary, highlighted what he called the paper's failure to deal adequately with the "challenge to maritime security and air power presented by the new world order".

Mr Menzies Campbell, Liberal Democrat defence spokesman, said that the government had failed to face reality on nuclear defence. "We need the fourth submarine but we do not need any more warheads on Trident than there are on the Polaris system", he said.

Decade of cost-cuts, efficiency drives ahead

By Daniel Green

WOMEN may train to become commandos and a "green minister", Lord Cranborne, has been appointed at the Ministry of Defence.

These are just two of the developments in this year's defence white paper. But the underlying message is little changed from last year: the 1990s will be a period of efficiency drives and cost-cutting.

The commitment to developing "smaller but better forces" following the two-year-old Options for Change programme of cuts is restated. The procurement side has been pruned in an effort to keep within the Treasury's £24bn-£25bn target for annual spending until 1995.

However, many spending plans do survive. They include the re-equipping of the First Armoured Division with new tanks, armoured vehicles, artillery and other systems that will increase its combat capabilities by 25 per cent by 1995, and by more than a third by 2000.

The white paper confirms that more plastic-hulled Sandown-class minehunters will be ordered.

More than 75 per cent of defence contracts in the past year were placed by competition or priced by reference to market forces, the white paper says. The ministry is conducting a feasibility study on the creation of a European armaments agency with a view to easing cross-border arms procurement.

Other lessons learnt from civilian privatisation are also working their way into the military. The introduction last year of a New Management Strategy has led this year to the analysis of defence resources by budget-holder rather than by programme.

The strategy, which introduced efficiency targets for planning and resource allocations, is designed to save 1.5 per cent of the defence budget in its first year, with a target of 2.5 per cent savings in each of the next three years. Such measures should save up to £4bn annually within three years, Mr Malcolm Rifkind, defence secretary, said yesterday.

Challenger tanks take part in a simulated battle in the Saudi Arabian desert prior to the Gulf war

Report targets Gulf hardware

By Paul Abrahams

RELIABILITY of army land vehicles during the Gulf war was criticised yesterday in the annual government policy document (white paper) on defence.

The report said reliability problems had considerable implications for operations and had only been overcome by a disproportionate application of maintenance and spares which had to be loaned or purchased from allied and friendly countries.

In spite of such problems, preliminary lessons from the war suggested no major changes in British military doctrine and organisation were required. The report said the Gulf campaign exposed a number of shortcomings, although these should not detract from an outstandingly successful operation.

Problems highlighted by the white paper will provide the armed services with opportunities to lobby for projects such as the European Fighter Aircraft and the army's new anti-tank helicopter.

The performance of Challenger 1, the British army's battle-tank manufactured by Vickers, was described merely as "effective." The tank's reliability and fire control system were limiting factors, says the report. Since the war, the Ministry of Defence has put in an order for about 130 new-generation Challenger 2 tanks.

The paper says older support and engineering vehicles were unable to keep up with more modern equipment and were left behind.

The report also lobbies for a replacement for the Lynx, anti-tank helicopter saying the aircraft lacked the survivability required in an attack helicopter. The army has indicated a strong preference for the American AH64 Apache. Westland of the UK has reached an agreement with McDonnell Douglas of the US for a British-assembled version.

The Midge drone, used to provide airborne surveillance, proved unreliable and unable to provide real-time information. A new remotely piloted vehicle, called Phoenix, is due to replace Midge in 1993.

The report attempts to explain why the Royal Air Force lost six Tornado GR1 jets. It denies this was because they were flying low to use the airfield denying weapon, JP233. Only one jet was lost on a JP233 mission.

However, four of the aircraft were lost at low level, the only height where the jet's sensors and weapon systems could be effectively employed. The report concludes the conflict demonstrated a need to a more flexible approach to future RAF training requirements. It also argues it showed the importance of achieving air superiority and the value of an agile aircraft such as EFA.

British intelligence organisations are cleared of misreading President Saddam Hussein's intentions. Intelligence resources at the time were focused on the changes in eastern Europe and the then Soviet Union.

The whole campaign cost the UK about £2.5bn, according to the paper. The Ministry of Defence said yesterday about £1.5bn had already been supplied through burden sharing and it expected approximately £500m to be provided before the end of the year.

Heseltine to press for shake-up in energy market

By Neil Buckley

THE UK will use its presidency of the European Community to push for urgent liberalisation of Europe's energy market, Mr Michael Heseltine, trade and industry secretary, said yesterday.

Speaking at the Financial Times conference on North Sea Oil and Gas, Mr Heseltine said the segregated energy market was a "major anomaly within the new Europe now taking shape."

If the aim of a genuine single European market was to be achieved, he said: "It is self-evident that nation states cannot simply pick and choose which Single Market measures they are prepared to adopt."

He said the UK would press for:

● The removal of statutory monopolies across Europe, so that other players could enter the market.

● Greater transparency between production, transportation and supply, to eliminate cross-subsidies and allow new market entrants clearly to assess the challenges.

● Open access to existing pipeline and transmission infrastructures for new suppliers.

Mr Heseltine warned that the segregated energy market led to significant disparities between energy prices in member countries. This could harm the competitiveness of industry in some countries, and of Europe as a whole.

European Court rules on British pension payments

By Norma Cohen, Investments Correspondent

THE UK government yesterday won a significant victory in its efforts to reorganise state social security provision when the European Court ruled that British men can legally be required to pay contributions for a longer period than women.

Mr Peter Lilley, social security secretary, termed the ruling "good news" and said it would allow the UK to get on with its task of reorganising social security provision to eliminate variations between men's and women's benefits.

The DSS is considering several options to equalise the age at which men and women may retire. Rules allow women to retire at 60 after 39 years of contributions on a full state pension while men must wait until 65 and pay 44 years of contributions to receive the same benefits.

Mr Paul Greenwood of the consulting actuaries Mercer Fraser, said that if the judgment had gone against the UK, the government could have been forced to spend billions to immediately end the system of differential contributions and make retrospective payments to men going back to 1984.

Mr Roger Key, partner at Watson's, consulting actuaries, said the decision reflects the Court's recognition of the great difficulties involved in revamping public social security benefits. "They have said it is all well and good having these marvellous ideas but somebody has to pay for them."

Only four European states have so far fully equalised benefits for men and women and one of them, Germany, has yet to equalise contributions. Of those which are planning equalisation, most are considering a retirement age of 65 but Ireland plans to require waiting until 66 while Denmark will equalise at 67. The UK is currently considering options ranging 60 to 65.

The case was brought by the Equal Opportunities Commission which argued that current UK social security rules on contributions are discriminatory. The commission did not argue against the current practice of allowing women to retire at 60 while requiring men to wait until 65, but said it was unfair to require men to pay contributions longer than women to achieve the same benefits.

In its ruling, the EC said that a 1979 directive on social security benefits allowed for a transitional period during which member states could phase in equitable retirement schemes. "It can be deduced from the nature of the exceptions contained in the directive that the Community legislation intended to allow member states to maintain temporarily the advantages accorded to women with respect to retirement in order to permit them progressively to modify the pension systems without disrupting the complex financial equilibrium of those systems."

London's trade role faces invisible threat

Robert Peston looks at the City Research Project and its findings

The City of London's international trade in financial services, known as "invisibles", is being threatened by deficiencies in the "invisible infrastructure", according to an exhaustive investigation called the City Research Project.

The invisible infrastructure is the system of regulating and policing the City - the regulatory authorities and the legal structure.

Professor Richard Brealey, who led the London Business School team commissioned to write the report by the Corporation of London, says one such threat is the proliferation of official bodies with an interest in the development of financial markets.

Professor Brealey believes that this lack of a "single or co-ordinated focus on London's international competitive position" is an obstacle to collective action to solve any perceived problems in the City.

On the other hand, he agrees that the creation of a "super-authority", combining all regulatory and sponsoring powers, would not necessarily be the best solution. Such a body would be huge and unwieldy.

Another invisible threat is the imposition of new regulations on the London market in the form of European Community directives. In this case, these Europe-wide rules may not be sensitive enough to the needs of Europe's most sophisticated markets in London.

He is less pessimistic about the damage done by London's more visible problems, such as its aging and congested transport system.

The report, brainchild of Mr Stanislas Yassukovich, investment banker and former chairman of what was the Securities Association, contains a long list of potential problems for the City but an almost total absence of solutions.

A programme of action may in time be drafted. The interim report published yesterday was the result of six months of interviews with 200 City figures and the distillation of thousands of pages of statistics. Professor Brealey has another two and a half years of research in front of him.

He defines an international financial financial centre as having two characteristics: a relatively high level of cross-border transactions and a concentration of offices of foreign financial institutions. On that definition, London is the world's biggest international financial centre - as distinct from being the world's biggest financial centre, since the domestic business carried out in New York and Tokyo far outstrip's London's.

The greatest concentration of financial employment in the world is in London, according to the report. Government figures show that 620,000 people worked in finance and business services in London in 1989, around 100,000 more than in New York.

London contains the greatest number of foreign banks of any financial centre. Even in 1991, a year of recession in banking, 31 new banks opened a London office and 15 banks departed. There was a net loss of US banks from London, but these were replaced by Japanese and continental ones.

There may be little sign of banks leaving London, but other centres are attracting new banks in greater numbers. At the same time, London's large share of total international bank lending is declining slightly, according to figures from the Bank for International Settlements, the international forum of bank regulators. Nonetheless if foreign lending to domestic residents is excluded, London is the largest international banking centre with a 16 per cent share, compared with 15 per cent for Tokyo.

One of the more surprising conclusions in the report is that London's biggest business by a wide margin is in foreign exchange dealing. Professor Brealey has for the first time tried to compare the gross revenues generated by different financial services, though his attempts have been hampered by the paucity of reliable data.

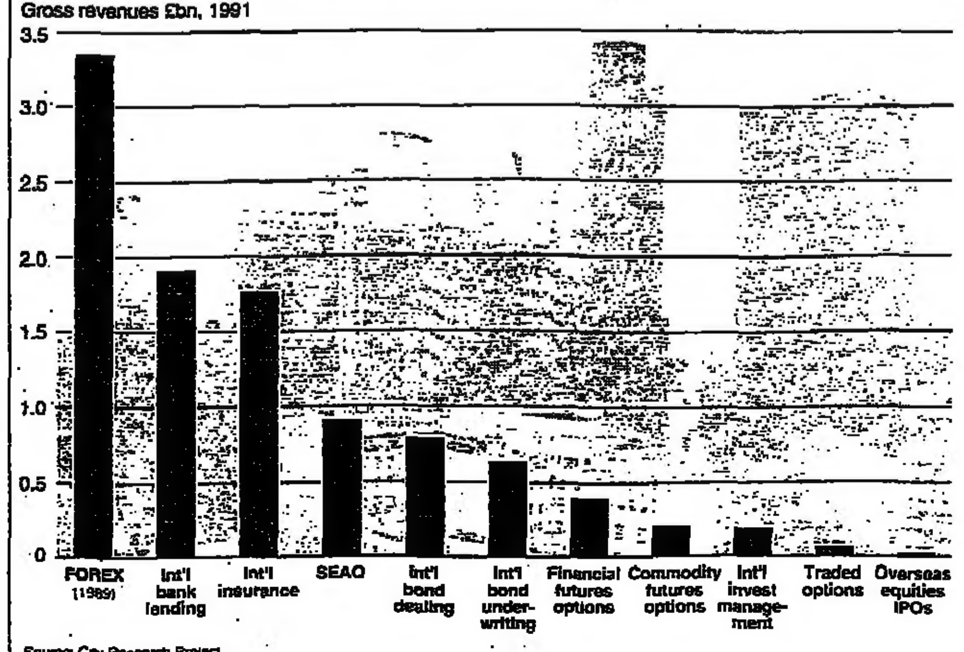
He admits his figures may need revision but believes the positions of the eleven financial services shown in the above table are broadly accurate. The gross revenues include commissions, fees and "spreads" on trading and lending activities – or the difference between buying and selling prices – but take no account of a business's overheads.

Nonetheless the importance of the banking sector to London is demonstrated clearly, given that foreign exchange trading and international bank lending are respectively the top two earners in the City.

Given the relative importance of foreign exchange trading to London, any move towards monetary union in the European Community will have profound effects for London. Professor Brealey does not believe the disappearance of trade in sterling, francs and other European currencies would be too damaging.

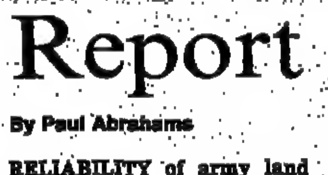
Nonetheless, it is clear why the government attaches great importance to the location of a European central bank or its money market dealing arm in London. The rewards for the City of being the dealing centre for a unified European currency could be huge.

How the City earns its money



Source: City Research Project

Britain in brief



EC allows sleepers in tunnel

British Rail's long-delayed plans to run sleeper trains through the Channel tunnel to the Continent were given provisional approval by the European Commission.

The EC's competition directorate indicated that it was prepared to let the services go ahead provided BR and its Continental railway opportunities did not attempt to bar other train operators from setting up in competition.

● Eurotunnel, the Anglo-French company building the Channel tunnel, yesterday announced that the shuttle train service that will carry lorries and cars between Folkestone and Calais from autumn next year is to be known as Le Shuttle.

Threat from UK lenders

Two of Britain's biggest mortgage lenders threatened to raise mortgage rates unless there was a cut in bank base rates. The statement was provoked by the launch yesterday of a new National Savings product, the First Option Bond.

Bank to back supervision

The Bank of England is expected today to respond to the criticisms of a Commons' select committee and back stronger banking supervision laws following the collapse of Bank of Credit and Commerce International.

Extra powers to act against banks whose opaque or internationally-spread structure makes regulation difficult are expected to be proposed by the Bank in its formal response to the cross-party Treasury select committee investigation into the affair.

However, the Bank is expected to delay until after the publication of the official inquiry into BCCI, under Lord Justice Bingham, its detailed response to specific criticisms of the closure of bank more than a year ago.

Offer tightens power code

Offer, the electricity industry watchdog, has made its first real move to tighten electricity regulation since the industry was privatised two years ago.

It has proposed a substantial cut in the charges electricity consumers pay for using the national electricity network, owned by the National Grid company.

● In a separate development pressure is growing for extra powers to be given to the director general of Ofwat, the water industry's regulator, to direct Britain's privatised water companies to pay compensation to customers who have suffered from poor service.

EC ruling on deportation

The European Court of Justice in Luxembourg ruled yesterday that Britain had wrongfully deported an Indian man married to British national who had returned to the UK after working in another Community country.

£1,000 bid wins TV channel

An army of 2,000 video recorder returners will visit every home in London to clear the way for the launch of Britain's fifth national television channel.

The strategy, which will cost a total of £75m across the country, was unveiled yesterday as a consortium led by Thames Television submitted the only bid for the Channel 5 licence to the Independent Television Commission.

The bid was for the minimum figure of £1,000 a year.

Tension over Ulster talks

Northern Ireland Unionist leaders presented their position papers in talks with the Irish government amid the first visible signs of the tensions the London negotiations have caused in Unionist ranks.

Three local councillors announced their resignations from the Rev Ian Paisley's hardline Democratic Unionist Party the in protest at the leaders' presence at the Lancaster House talks.

The talks represent the widest-ranging negotiations on Northern Ireland's political future to be held in 70 years.

The chairman of the talks is Sir Ninian Stephen, the former governor-general of Australia.

FT LAW REPORTS

No Mareva for premature claim

ZUCKER AND OTHERS v TYNDALL HOLDINGS PLC
Court of Appeal
(Lord Justice Dillon, Lord Justice Neill and Lord Justice Staughton):
May 7 1992

THE COURT has no jurisdiction to grant a Mareva injunction in respect of a premature claim for specific performance of a contract which has not been breached and is not threatened by prospective breach.

The Court of Appeal so held when dismissing an appeal by the plaintiff appellants, Mr Willard Zucker, three members of his family and Mr Phillipe Grossglauser, from Mr Justice Morland's order discharging a Mareva injunction obtained by them against the defendant, Tyndall Holdings plc, in proceedings for specific performance of an agreement for the sale of shares.

LORD JUSTICE NEILL said that by an agreement dated June 2 1989 the appellants were allotted 25 per cent of the shares in a Swiss company called Tyndall Trust. The other 75 per cent were allotted to Tyndall International Holdings, a Bermuda company which was a wholly owned subsidiary of an English company, Tyndall Holdings.

The parties to the agreement were the appellants, Tyndall Holdings and Tyndall International.

At the time of the agreement Tyndall Trust's share capital was increased. The purpose of the agreement was to enable Mr Zucker and his companies to join forces with the Tyndall Group, and to enable Tyndall Group headed by Tyndall Holdings to obtain access to the Swiss market and to have the benefit of the services of Mr Zucker and Mr Grossglauser.

It was a term of the agreement that if control of Tyndall Trust should ever pass out of the hands of Tyndall International the appellants would be entitled to exercise a put option to sell their shares.

Article 4 of the agreement defined a "put option" as the right of minority shareholders to sell the shares at a defined price. It provided that if on or before June 30 1992 Tyndall International, without the appellants' consent, disposed of a controlling interest in Tyndall Trust shares, then the appellants would have a right to exercise their put option against Tyndall International "at any time after such event, but no later than September 30 1992".

The put option could be exercised by any or all of the appellants by sending a letter to Tyndall International.

The agreement was governed by Swiss law and disputes were to be submitted to the non-exclusive competence of Geneva courts.

In September 1991 Tyndall Holdings was taken over by another company. That had not been anticipated by the appellants. One of the effects was that Tyndall Holdings shares were no longer going to be listed on the stock exchange.

On March 23 1992 the appellants exercised the put option and sent their share certificates to Tyndall International. It was accepted that if there was a valid exercise of the option the three months period for issue of the shares would expire on June 24 1992.

On March 25 the appellants began proceedings in Geneva, claiming a declaration that they had validly exercised their right to "put" the shares, and an order that Holdings and International should pay them SFr6m with interest from June 24.

On March 30 the writ was issued in the present proceedings claiming specific performance of the agreement for sale of the shares constituted by notice of exercise of the option. On that day the appellants obtained an *ex parte* Mareva order.

The question was whether the court had any jurisdiction to grant a Mareva injunction in the circumstances.

On April 6 Mr Justice Morland concluded that the nature of the specific performance action was such that any order obtainable until or before June 24 1992 would be merely declaratory. He concluded that the court had no jurisdiction to grant a Mareva injunction.

The appeal arose from that decision. It was directed solely to the question of jurisdiction.

Section 37 of the Supreme Court Act 1981 provided that the High Court might grant an injunction "in all cases in which it appears to the court to be just and convenient to do so".

Those words were very wide indeed, but the power conferred by them had been "circumscribed by judicial authority dating back for many years" (*South Carolina [1987] AC 24,40*).

In the *Siskina [1979] AC 210,256* Lord Diplock said the power to grant an interlocutory injunction could only be exercised "in protection or assertion of some legal or equitable right which it has jurisdiction to enforce by final judgment".

He said a right to obtain an interlocutory injunction was dependent on there being a pre-existing cause of action against the defendant "arising out of an invasion, actual or threatened by him, of a legal or equitable right of the plaintiff for the enforcement of which the defendant is amenable to the jurisdiction of the court".

The principle laid down in *Siskina* had been applied in a large number of more recent cases. In *Siporex [1986] 2 Lloyd's Rep 428* Mr Justice Bingham said it was clear law that "a Mareva injunction will not be granted to an applicant who has no cause of action at the time of application".

That sentence was cited with approval by Lord Justice Beldam in *Veracruz Transportation (FT, November 19 1991)*.

One had to consider what was meant by "cause of action" in the present context. A Mareva injunction could not be granted unless there was an existing cause of action which could be immediately enforced.

In the present case there had been no failure to pay the SFr6m.

The attitude taken by Tyndall Holdings was that the circumstances which would give rise to the valid exercise of the put option had not arisen. But it was not suggested that there had been any failure to pay the money at this stage when June 24 was still weeks away and there had been no repudiatory breach.

The appellants had the right to be paid but there had been no invasion or interference of that right.

As the law stood at present, for the purpose of a Mareva injunction it was necessary to demonstrate that a legal or equitable right had been interfered with or invaded, or such an invasion or interference was threatened – though interlocutory relief could be obtained in certain circumstances to protect an equitable interest even before the time for performance under a contract had arisen.

On the facts of the case it was not open to the court to grant an injunction. It had no jurisdiction to do so.

The appeal was dismissed.

LORD JUSTICE STAUGHTON agreeing, said the question was not whether the appellants had a cause of action, but whether they had a cause of action arising out of the invasion, actual or threatened of a legal or equitable right.

It appeared from *Veracruz (FT, November 19 1991)*, the *Steamship Mutual* case *(FT, June 19 1992)*, *Niedersachsen [1983] 2 Lloyd's Rep 600* and *Siporex [1986] 2 Lloyd's Rep 428* that it did not cover a threat to break a contract which was not presently performable.

In the present case there had been no actual breach, and no threat to break a term which was presently performable.

LORD JUSTICE DILLON also agreeing that the appeal should be dismissed for want of jurisdiction, said a Mareva could only be granted by the English court in support of a cause of action which the English court had jurisdiction to entertain.

The appellants sought to establish in the Swiss courts that they were entitled not to shares but to a money payment being the value of the shares. The Mareva relief was sought in aid of that claim. But the court's jurisdiction to award the money payment depended on Swiss law and Swiss courts, and the English court had no jurisdiction to award it, nor was it asked to.

Mareva relief in aid of the claim for the money payment must be premature until the Swiss court had made its determination. The application was premature.

For the appellants: Martin Mann QC and Michael Gadd (Jay Benning & Levine).

For Tyndall Holdings: John Thomas QC and David Foxton (Turner Kenneth Brown).

Rachel Davies
Barrister

PEOPLE

Top teams at PW and Ernst & Young


Howard Hughes (left) plans to help stitch Price Waterhouse, the accountancy firm, into a "seamless" international practice in his new role as world managing partner.

Hughes, 54, is the first incumbent of the position, created at the same time as Sir Jeffery Bowman and Shaun O'Malley, both 57, were appointed joint chairmen of PW World Firm.

Hughes was managing partner of PW in the UK during the second half of the 1980s, joint managing partner of PW in Europe from 1989-91 and then deputy chairman there from 1991-92.

Sir Jeffery and O'Malley were joint chief executive officers of PW world organisation for the past two years. They will now concentrate on supporting Hughes in his new management role.

Hughes told his partners this week that his role is to develop PW's worldwide objectives and further develop its international network. "We must maintain and strengthen the co-operative efforts across firm and industry lines to provide clients with a truly seamless service," he says.

■ Meanwhile, at Ernst & Young a new team has moved into the top jobs as their mentor departs the UK for responsibilities in Europe.

Harold Cottam, 54, who was responsible for bringing in a youthful management team in the early 1980s, is stepping aside as managing partner to take charge of building the firm's pan-European consulting business.

Elwyn Eilledge has been re-elected as senior partner for a second three-year term, and has announced a new team, mostly in their mid to late 40s, moving up one place from their previous jobs.

The new UK managing partner – who takes charge of day-to-day administration within the firm – is Nick Land (right), formerly managing partner of the London office.

Michael Boyd, former head of the audit practice and energy and natural resources group, becomes London office managing partner in his place.

Land says: "The marketplace is pretty murderous and the profession is not entirely flavour of the month. But we are internally in a strong position to meet these challenges. Operationally we are in good shape. We can say the merger [of Ernst & Whinney with Arthur Young] is truly behind us."

The firm has no great ambition to be the largest in the UK, he says, but wants to focus at the top end of the market. He will be placing particular emphasis on developing the tax and management consulting practice areas.

■ Peter Kingston, ENTERPRISE OIL's managing director (technical), has resigned from the board in order to set up his own management consultancy.

Kingston, 49, a petroleum engineer who first made his mark in Shell UK's North Sea development, was a consultant before joining Enterprise in 1984. He will continue to work for Enterprise as a consultant, with particular emphasis on the further development of Enterprise's business in Italy and Norway. His board responsibilities have been reassigned to Iain Watt as technical director (UK operations) and Edward Harris, technical director (international).

■ N BROWN, the Manchester-based home shopping group which specialises in serving niche markets that few other companies think about, has appointed Martyn Pass as managing director of its Langley House subsidiary.

Langley House sells a wierd and wonderful range of products through advertisements in national newspapers. Its diverse products include ladies' fashion wigs, cast-iron garden rocking chairs and mini-size camera clamps.

Pass, 42, has worked at N Brown for the past decade but gained his marketing knowledge at GUS, the mother of mail order companies. He then worked at Plumbs Mail Order, a stretch-cover company, before joining N Brown.

■ The London International Financial Futures and Options Exchange (Liffe) has appointed two new deputy chairman, in place of Nick Durlacher who was elected chairman of the exchange earlier this year.

David Heron and Jack Wigglesworth represent the two different sides of Liffe's business, which is split between equity derivatives and interest rate products. Durlacher says there is "merit in having a balance between the exchange's equity and interest rate businesses" – represented respectively by Heron and Wigglesworth.

Heron, a director of James Capel, was previously on the board of the London Traded Options Market, which merged with Liffe earlier this year, while Jack Wigglesworth, business development director at JP Morgan Futures, has served on the Liffe board since 1982.

■ Ken Scobie, deputy chairman and chief executive of BRENT WALKER, is to take over as chairman of its William Hill subsidiary on the retirement of Lord Kindersley.

■ Joe Goasdoué has been appointed director, quality and corporate affairs at ICL; already director, quality, he takes on the increased responsibility from Aodh O'Dochartaigh who has been appointed director of group communications at BASS.

■ Lawrence Post has been appointed company secretary of WACE GROUP on the retirement of Scott Ritchie.

■ Jeremy Campbell, formerly director of human resources at Rothmans International, has been appointed company secretary and solicitor of EAST MIDLANDS ELECTRICITY on the retirement of Derek Wells.

■ David Carrick, group finance director, has been appointed md of ABI LEISURE GROUP; he succeeds David Eastwood who is to become a non-executive director. Rob Carmichael is promoted to finance director of ABI Caravans.

■ John Neerhout (above), who is on secondment from Bechtel as project chief executive, has been appointed to the board of EUROTUNNEL.

■ Kees Bokmans, previously global business director of ICI Films, has been appointed md of the polymer products division of EVODE.

■ David Jackson, general manager airline services, is now the senior representative of AER LINGUS in Britain.

■ Tony Reid, formerly president and md of Continental Netherlands Oil Company, has been appointed director and general manager, business development, of CONOCO (UK); he replaces Ian Gray who has been appointed president of the Dubai Petroleum Company.

■ John Maples, the former Conservative minister and new chairman of Saatchi & Saatchi Government Communications Worldwide, has added another directorship to his portfolio. He has gone back on to the board of SEP Industrial Holdings, the small USM-quoted engineering company, where he had been a director until he was made economic secretary to the Treasury in July 1990.

The 49-year-old Maples, who owns 2.89 per cent of SEP's equity, rejoins the company at a low point in its fortunes. When he resigned two years ago it had just reported half-yearly profits of £1.2m and increased its dividend by 10 per cent. By contrast, in the year to September 1991 the company's profits fell sharply and the dividend was cut, although yesterday it reported a modest recovery in half year profits and raised its dividend again. SEP has also put John Davis, managing director of its UK distribution division, on the board.

BUSINESS AND THE ENVIRONMENT

Investors flexing greener muscles

By Peter Knight

While investment has long been used to wield clout in the human rights arena, City of London investors are at last beginning to flex their muscles on environmental issues.

London fund managers last month received their second formal briefing from environmental groups and say they want to hear more.

The first came in April, when a pressure group based in Cornwall, called Surfers Against Sewage, presented its case against some of the sewage disposal methods used by South West Water, a listed company. Then last month Greenpeace argued against the business of incinerating toxic waste.

The meetings were organised by Roger Hardman, the environment analyst at stockbrokers James Capel. "It is a very forward thinking move on the part of James Capel," says Steve Warshal, editor of Greenpeace Business.

Hardman, impressed with the turnout, wants to organise more meetings. "These late afternoon briefings are usually used by many fund managers as an excuse to catch an early train home. They're usually out the door by five. But at the Greenpeace meeting, the last person did not leave until 6.45pm."

Environmentalists have acknowledged, but seldom exploited, the power of the investment community to create change in industry's environmental performance. But the success of green investment funds – where fund managers screen their investment decisions according to environmental criteria – has shown that pressure can be exerted on industry via the investor.

Given that some of the mystery surrounding the investment community is being lifted and the public is beginning to know more about the way investment works, it is possible that environmental pressure groups could target specific well-known companies, such as insurers.

These household names could be put under pressure – by the threat of consumer resistance – to include environmental criteria when building their investment portfolios.

Furthermore, the City is slowly becoming aware of the possible impact of tough new environmental laws, many led by the EC, which could affect profits of dirty companies. There is also a fear that companies, and possibly their lenders and insurers, will be made liable for the cost of cleaning up pollution.

Meanwhile, both the pressure groups and the fund managers are learning to talk to each other. "I don't think Greenpeace could have presented their case any better without diluting their message," says Hardman.

Warshal of Greenpeace says he was surprised at the audience's lack of knowledge and understanding of incinerators. "But they seemed quite receptive to our argument that toxic waste incineration is an industry that will not grow."

Marion Carter, an environmental consultant to most of the UK's waste managers, says there is a role for pressure groups in pushing for change in industry. "But I think it is very dangerous to say to fund mangers that they should not invest in the waste management industry, because you would then have a problem of what to do with the waste."

Kate Medd, a fund manager at Henderson Administration, was impressed by the quality of the Greenpeace presentation. "They have a legitimate point of view and they can back it up."

Edward Bonham-Carter, fund manager of the Electra Investment Trust, is less impressed. "The whole tone of the Greenpeace presentation was too much like a biology class for 16-year-olds. They would do much better if they gave a far more detailed analysis of practices and companies."

He says issues about the quality of life are set to increase in importance over the next 10 years, which will have an effect on investments. He would like a debate between industry and pressure groups on issues such as incineration.

"But I will certainly go to another one of these meetings," he says.

Mark Campanale, a researcher for the Merlin Ecology Fund, says most City analysts have no experience of the environment. "The City is virtually illiterate when considering environmental concerns. It's just not part of the traditional investment equation.

"James Capel should be applauded for getting people thinking about wider issues. But if Greenpeace is going to succeed in getting its message across, it should switch on to the fact that it is companies that both create and solve problems. They've got to present their case on specific companies and in great detail."

John Griffiths finds Mazda pushing ahead with an emissions-free fuel

Hydrogen car moves on to the horizon

Mazda, Japan's fourth largest car maker, is shortly to seek Japanese government approval for an on-highway test programme for hydrogen-powered cars, whose exhaust "fumes" consist of non-polluting steam.

The company has concluded that hydrogen-powered cars are technically achievable more quickly than is commonly believed within the industry.

Over the coming months, it plans to start negotiations with Californian state authorities on making hydrogen cars acceptable under the strict new exhaust emissions legislation that California is phasing in from 1997 onwards, and to explore possible systems for refuelling them.

Part of the Californian legislation, which is being considered for adoption by up to a dozen other states, requires 2 per cent of manufacturers' sales to be of "zero emission vehicles" from 1998, rising to 10 per cent by the early 21st century.

Virtually the entire motor industry has accepted the fact that the legislation's time scale can only be met with battery-powered cars.

But while Mazda has already developed its own battery cars to meet the legislation, Michinori Yamanouchi, senior managing director of Mazda Motor Corporation, says that electric vehicles in general will be far too expensive and limited in their performance to have anything but a restricted future as urban runabouts or light commercial vehicles.

According to Mazda, the Wankel rotary petrol engine – which it, alone among car makers, now produces – can be adapted more easily than conventional petrol engines to run on hydrogen. Cars fitted with it could reach the marketplace for a price about 20 per cent higher than a petrol-powered equivalent – "in other words for about the cost of air conditioning and audio equipment", says Yamanouchi.

In contrast, he says, "we estimate that even if electric vehicle technology really advanced, their price would be twice that of a gasolene car at minimum. And that price ratio would be the same even if a manufacturer were to be making 10,000 units a month".

Mazda is by no means alone in researching hydrogen-fuelled cars. Mercedes and BMW of Germany are among those which have produced prototypes.

However, difficulties with combustion in adapted, conventional reciprocating engines and on-board fuel storage, and scepticism about the ease with which a hydrogen manufacturing and refuelling infrastructure could be set up have led most manufacturers to suggest that viable hydrogen cars are still years off.

Mazda's HR-X prototype: the company believes the vehicle is far nearer to realisation than do many in the industry

According to Mr Yamanouchi, the design of the rotary engine eliminates the premature combustion problems normally associated with using hydrogen as a fuel in conventional engines.

Mazda has also launched a collaborative project with Nippon Steel Corporation, Japan's largest steel maker, to set up a pipeline fuelling supply system for the test programme, using as the feedstock hydrogen from one of Nippon Steel's manufacturing plants, where hydrogen is a major but mostly wasted by-product.

Yamanouchi expects the steel industry to be a future producer and marketer of hydrogen in its own right.

Chemical plants, which generate hydrogen as a by-product, could be also harnessed to localised supply networks. In Japan there will be a network of hydrogen fuelling stations by the early 21st century, he predicts.

Mazda's vision of a fuelling infrastructure for hydrogen is based on it being in gaseous form. BMW, in contrast, has based its prototype on the use of hydrogen in liquid form, requiring insulation of both fuelling system and the vehicle's fuel tank to allow temperatures close to absolute zero.

"If the determination is there, we can set up hydrogen pumps and pipelines fairly easily in terms of technology and finance," Yamanouchi says.

He is also relatively dismissive of concerns about the safety aspects of hydrogen, should it leak into a boot interior, for example. It is undetectable by sight or smell, but Yamanouchi insists that, being lighter than air, it would disperse quickly – and it possesses a combustion point higher than gasolene.

Mazda regards the biggest problem as how to store the hydrogen in sufficient volumes in the vehicle. Its solution, adopted also for the prototype Mercedes fleet, is a fuel tank filled with a metallic hydride capable of soaking up large quantities of gaseous hydrogen and re-releasing it when heated.

Fitting enough hydrogen into the tank is still a problem, however, as it is a much less dense fuel than gasolene. Nevertheless, one prototype has achieved continuous running for 200km at maximum speeds of 150kph.

Yamanouchi's predicts that in 30 years' time petrol or diesel-powered cars will account for just 10 per cent of the world's total car output, having been supplanted mainly by hydrogen cars but also by a much smaller proportion of battery powered urban vehicles.

As for California's forthcoming legislation, Mazda believes that the problems of limited range and performance of battery-powered cars, and even their refuelling infrastructure, will become much more apparent as its enactment draws nearer. It believes that California's Air Resources Board and other legislative bodies involved will face a sea of difficulties in persuading Californian motorists to buy and use them. "Already, I have heard that the ARB is feeling itself as Hamlet in Shakespeare," says Yamanouchi.

Mazda therefore expects the Californian authorities to welcome the proposals for a hydrogen alternative.

It is considering talking to other manufacturers that have an interest in the technology for a co-operative approach to introducing hydrogen cars to California.

Among those most likely to be interested is Mercedes, which last year updated its thinking on hydrogen vehicles in the form of the F-100 concept, shown as Mercedes' "car of the future" at the Detroit motor show.

Even Mazda, however, acknowledges that production of hydrogen – on the huge scale required to provide significant substitution for petroleum – is a large technical challenge.

Hydrogen may be the most abundant element in the universe, and the ninth most abundant on earth, but making it from water – the most sensible route on a large scale – involves electrolysis, using a direct external energy source. Clearly, if the energy to provide this came from fossil fuels, the whole exercise could be self-defeating from both the emissions and energy conservation points of view.

For large parts of the transport-using world – not least sunny California – solar energy could prove the answer. One group highly active in the field, Texas Instruments, claims already to be generating solar electricity at close to the domestic tariff rate of Southern California Edison, the electric utility.

Danes see dawning of era for biorefining

A biorefinery, designed to use agricultural crops for such non-food purposes as making paints, glues, plastics and other products normally based on mineral oil, has begun work in Denmark.

Financed by the EC's Eclair programme, the project – known as the Whole Crop Biorefinery Project – involves companies and research institutes from the UK, Ireland, Germany, Greece and Denmark. The hope is that biorefining will reduce environmental damage and agricultural surplus, while creating jobs.

By techniques like those of oil refining, crops can be broken down into fibres, oils, proteins and starch. The "raw materials" derived from purified crops can replace oil in producing paints, plastics, glues, packaging, fibre-board and chemical and pharmaceutical products.

Scientists claim that this would reduce environmental damage. Manufacturing products based on crop constituents would not increase CO_2, sulphur and heavy metal levels in the atmosphere as much as the production of crude-oil based goods, they say.

Administrative project co-ordinator Christian Kjoller said the concept of using agricultural crops for non-food purposes had attracted increased interest during the past decade, but few products had been put to commercial use: "The EC's grain surplus is an expensive burden. It stands to reason that we must study the possibilities of using agricultural products for other purposes. By means of biorefining, imported raw materials can be replaced by domestically produced ones and can positively influence the European balance of payments as well as employment."

The Ecu9.7m (£6.8m) project is financed by the Eclair research programme, the Danish government and partners from England, Ireland, Germany, Greece and Denmark. Headed by the Bioraf Denmark Foundation, the pilot plant in Aakirkeby, Bornholm will run for three and a half years with the aim of establishing others.

Kjoller stressed that expertise had been sought from five European countries and that the project would otherwise have been impossible in Denmark.

Sarah Pilkington

MANAGEMENT

Marriages of convenience

GEC

AT THE CROSSROADS

PART THREE:
Charles Leadbeater
looks at the group's joint ventures

Six days into the new year of 1989, the relaxed calm of a Friday afternoon at General Electric Company's headquarters was shattered by bad tidings from the City.

A plot was afoot to assemble an international consortium called Metsun; its purpose to dismember GEC, the company which Lord Weinstock had spent almost 30 years building up.

This was his most perilous time at the helm of GEC. The company's future hung in the balance and he knew that if the Metsun bid succeeded, GEC's dismembered parts would be carried off by a hungry pack of international competitors.

He also knew that to see off the threat GEC needed to take some fateful decisions itself. In three months of hectic negotiations that winter GEC formed three vital joint ventures. The alliances were not solely a response to the threat of takeover but the combined effect was that GEC conceded shared sovereignty over large parts of its business.

These alliances now generate about a third of GEC's £9.4bn turnover and 42 per cent of its operating profits. If they were to unravel GEC could be cut off from its paths to international growth.

The roots of the drama lay in 1986 when GEC made its initial bid for its close rival, Plessey. GEC wanted to combine their businesses, making telecommunications equipment and defence electronics. The aim was to rationalise the British electronics industry in the way it had the electrical industry more than 20 years before.

The Monopolies and Mergers Commission rejected GEC's bid because it feared competition in defence markets would be eroded. But GEC remained under pressure to expand by acquisition. The City was breathing down Lord Weinstock's neck, keen he should spend the £1bn cash mountain the group had accumulated.

Lord Weinstock's way around monopolies obstacle was to bring in Siemens. The German company would help to provide GEC and Plessey's telecommunications businesses with the scale they desperately needed. Siemens would buy some of Plessey's defence activities to alleviate the Ministry of Defence's concern over GEC's growing monopoly in defence electronics.

This revived interest in Plessey, however, rebounded upon GEC. Its record was subjected to unrelenting public scrutiny and Plessey came out fighting.

It became a prime mover in Metsun. The consortium was orchestrated by Lazards, the merchant bank, fronted by Sir John Cuckney, then chairman of Westland, and backed by Barclays Bank. And even more menacingly this grouping tried to entice General Electric and AT&T of the US to join a bid.

The threat was great. But before Metsun could take shape Lord Weinstock announced his second major European joint-venture, a wide-ranging deal with Alsthom of France to create an engineering business with turnover of about £5bn.

The deal was finalised at Lord Weinstock's country house in Wiltshire. A few days later, when the venture was announced, Metsun broke cover. Lord Weinstock knew he must then move swiftly to head off the threat of a bid. It took him just a week to break up the consortium.

He started secret talks with Mr Jack Welch, General Electric's chairman, and lured the US group away from Metsun.

He and Mr Welch agreed a joint-venture in consumer appliances, while GEC promised to pull out of the European medical electronics market to give GE a clearer run. The US group was also brought into the alliance with Alsthom, supplying gas turbine technology.

That agreement sounded the death knell for Metsun, and four months later the monopolies commission cleared the joint bid for Plessey.

Now the ring of joint ventures makes it extremely unlikely that GEC will ever be broken up: most of the companies which once might have launched a bid are signed up as the group's allies.

GEC executives discount the risk that the partners – Siemens, Alsthom and GE – might club together to carve up their partner. "They dislike one another more than they dislike us," says one.

But how much might GEC eventually have to pay for the construction of this Maginot line of joint ventures? Has the group warded off a break up bid only to risk allowing the company to dissolve gently as it loses control to partners who have stronger management, international market positions or technology?

These ventures have opened up avenues for GEC to expand internationally, particularly into continental Europe where it was weak and where opportunities for large acquisitions were virtually non-existent.

However, they could also be a disguise for its lack of international scale and competitiveness in industries such as telecommunications. Indeed, has GEC been forced to look for partners because it lacks the resources to succeed internationally on its own?

The three ventures are quite different in their aims, the way they work and what they could mean for GEC's future:

● Mr Bruce Enders' bright red Lotus Elan sports car sticks out like a sore thumb in the drab corporate car park at the Hotpoint refrigerator factory in Peterborough. The American managing director of GEC's consumer appliances partnership with GE explains: "I decided to get a British sports car because I did not want to stir up any union trouble."

He is shaking up Hotpoint and Creda, GEC's consumer goods companies which make refrigerators, cookers and washing machines. Surprisingly little was done to rationalise Hotpoint and Creda's overlapping activities when they were solely-owned by GEC. Obvious opportunities to cut costs were not taken.

Now change has been forced upon Hotpoint by the UK recession and the alliance with GE is also driving reform.

Mr Enders, who used to work for GE in the US, has brought in total quality programmes. The legions of suppliers are being pruned and products are being redesigned to make them cheaper to manufacture. At least two of the group's five factories will be closed this year.

For GEC the partnership has brought access to the US group's research on new products. For GE the UK has become a further outlet for US-made components.

Hotpoint's future is clear: it fits neatly into GE's worldwide strategy for consumer appliances. This is the latest in a string of consumer appliance joint-ventures which GE has formed around the hub of its large US businesses. As yet there are very few GE components in a Hotpoint washing machine or refrigerator. But the number will grow and Hotpoint will gradually become more entwined with its US partner.

GE sees no need to buy the company to secure that relationship. The alliance serves its purpose for both companies. Their ambitions are strictly limited to consumer products. Initial plans that it should be the starting point for a much larger European business have been quietly shelved.

● GEC-Alsthom is a different kettle of fish altogether. It is by far the most impressive venture, based upon the best Britain and France can offer in making heavy equipment such as generators and turbines for power stations, locomotives and rolling stock for railways.

The venture was not a response to the threat of takeover. World demand for power stations fell precipitously in the 1980s. That created huge overcapacity, which forced all producers to cut costs. In 1988 Asea of Sweden and Brown Boveri of Switzerland led the way by merging to create an integrated pan-European business. GEC and Alsthom realised they had to respond or the ABB giant might stride ahead.

This was compounded by problems GEC and Alsthom had in their own countries.

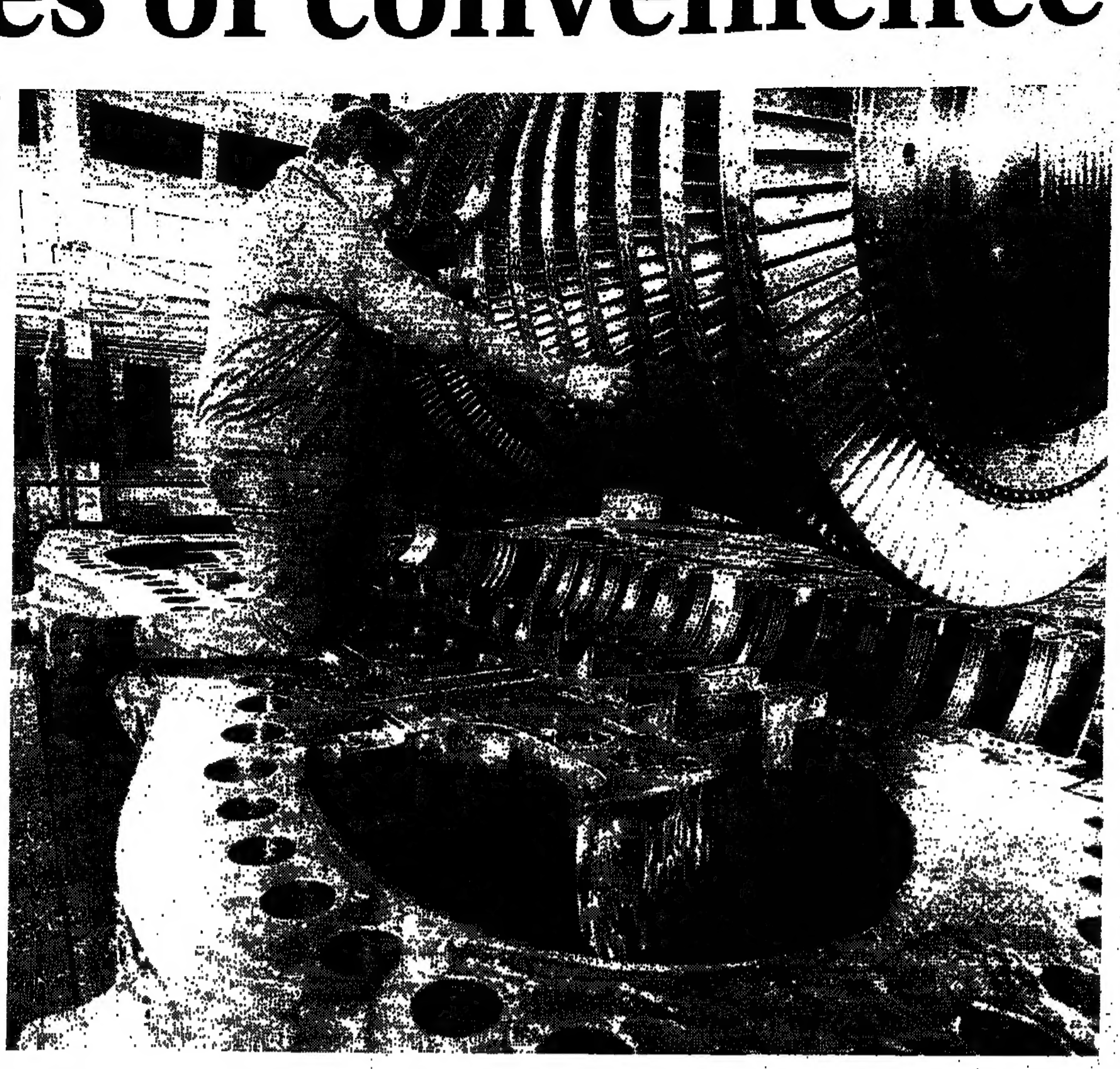
In the UK electricity privatisation created demand for power stations driven by gas turbines. GEC does not make gas turbines for power stations.

As Mr Mike Barrett, now in charge of GEC-Alsthom's steam turbine division puts it: "We had to find a partner who could make gas turbines to get a share of the market. We could have been in desperate straits otherwise."

GE of the US which has the best gas turbine technology, has made it available to Alsthom through an intimate relationship forged over two decades. Alsthom's access to GE's technology made it a natural partner for GEC.

Alsthom, the engineering arm of Alcatel-Alsthom, was already conducting its own search for a partner because the French nuclear programme, which had sustained it for years, was in decline.

It got close to a deal with Siemens, but pulled out because the Germans wanted control. The French then found there was a very good fit with GEC, the only serious overlap being in manufacturing capacity for steam turbines, and the deal was done.



DRIVING FORCE: Turbine manufacture at Rugby. Managers on both sides of the channel have found a new sense of dynamism through the GEC-Alsthom joint venture

The venture got off to a rocky start. A clutch of UK orders for coal-fired power stations, which had filled GEC's order book, were suddenly cancelled. The first gas turbine orders in the UK went to competitors such as Siemens. But GEC-Alsthom has overcome these teething problems.

Its order book has grown to Ecu14.5bn (£10bn), compared with Ecu10bn (£7bn) three years ago. It is the leading UK supplier of power station gas turbines and has just won an important order in Holland to build one of the largest combined-cycle gas turbine station in the world.

The venture's pre-tax profits have risen from Ecu346m in 1989-90 to about Ecu440m this year as its profit margins have widened from 4.4 per cent to 5.3 per cent.

Managers on both sides of the channel are fired by a sense of dynamism. Red brick factories in France and Britain which have made power equipment since the 19th century are being modernised.

According to Mr Kelvin Bray, chief executive of European Gas Turbines, the venture's gas turbine arm, who has worked for GEC for almost 30 years: "It has given us momentum, size and reputation."

From GEC-Alsthom's large plant in the fortress town of Belfort in northern France, Mr Claude Descroix, the genial plant manager, a veteran of the Concorde project, offers another explanation: "We need a counterweight against German influence in Europe, politically and industrially. That is why this must work."

British and French managers mix in a relaxed fashion. French engineers are more theoretical than the British, who tend to be more pragmatic in finding solutions to problems. The British tolerate the French managers' love of long-term strategic thinking, while the French tolerate British commercialism. GEC's financial controls were introduced six months after the merger. Alsthom's managers used to make general financial reports once every six months. Now they make much more detailed reports once a month.

This financial rigour has already started to bear fruit. Mr Pierre Bilger, GEC-Alsthom's chief executive, says: "Lord Weinstock has shown us how to use a financial system to understand a business. In France we have frequently felt it was negative and destructive to reduce the business to figures. Lord Weinstock has shown us how to put flesh on the figures."

The British managers have a spring in their step. Mr Jim Cronin, GEC-Alsthom's finance director says they have been quick to pledge their loyalty to the venture: "GEC had no corporate identity abroad. They have that for the first time with GEC-Alsthom."

There are, however, two potential sources of tension in this close relationship.

The first is the strength of French management. Some at GEC believe the French are quietly taking over by stealth. Most of the top jobs are filled by French executives. The most plausible explanation for this is the sheer quality of French management and their greater facility with language – Mr Bilger learnt English in six months, most English managers are still struggling with the basics of French.

The second factor is the two companies' different characters which stem from serving very different customers. Alsthom was fed by France's commitment to nuclear power. GEC invested heavily in nuclear power for little return before electricity privatisation threw the UK nuclear programme into disarray. Alsthom's strength in railway locomotives reflects the French government's 20-year-old commitment to the TGV high-speed train. The French are bemused by the British government's equivocation over investment in rail.

Last month GEC-Alsthom won orders worth £509m from European railway companies for 27 high-speed trains, beating off competition from Siemens. In contrast British Rail this spring placed a £140m order for commuter trains with Brel, an affiliate of ABB, casting a dark shadow over the future of GEC's train making operations.

The strength of Alsthom's base may tip the balance of power to the French. But it seems unlikely that the merger will break up or unravel. Lord Weinstock describes it as rock solid. And Mr Bilger says: "This merger is dictated by common interests. The factors which brought us together are not going to disappear."

GEC-Alsthom is the extension to continental Europe of GEC's main achievement in the UK, the rationalisation of traditional heavy engineering. GEC is confident on this familiar terrain.

● The same cannot be said of the other major joint-venture, the alliance with Siemens.

The troubled history of Britain's telecommunications industry cartel still haunts this venture: GPT, which is 40 per cent owned by Siemens and 60 per cent by GEC.

When Mr Karl Heinz Kaske, Siemens' chairman, and Lord Weinstock planned the Plessey takeover they envisaged it would be the foundation for an alliance encompassing telecommunications, defence electronics and research activities.

Those plans came to nought because of the US Department of Defense's objections to Siemens' ownership of US defence companies. This forced the two partners to redraw their plans for defence electronics.

And once the Plessey bid succeeded it did not take long for the two companies to find they had very different approaches to business. Most of Siemens' research is centralised. At GEC it is decentralised. Siemens has a hierarchical management structure. GEC is highly informal.

Mr Tony Cobbe, managing director of GPT's telecommunication systems division, has no doubts about the importance of the partnership with Siemens. He says: "Without it we could not afford to be involved in the next generation of big digital telecommunications switches. With this partnership we should be in the top five in the world."

At the GPT factory on the outskirts of Liverpool, Mr Peter Gershon, the squat, energetic managing director brought in from the computer industry about two years ago, is unsparing in his account of the problems faced.

GPT's traditional business, supplying System X, the main digital switch used by British Telecommunications, is in decline and that threatens to open a gaping hole in the company's finances, unless it can generate additional income from new products such as video conferencing and mobile telephones. Success in these markets will require a revolution in manufacturing and marketing approach.

Mr Gershon is leading a ruthless clear out of the company's old management and ideas. Only one member of the GPT board is left from 18 months ago. The workforce has been cut by about 20 per cent to 16,000 and the introduction of some tighter financial disciplines this year has turned GPT into one of the main sources of the £350m growth in GEC's cash reserves to £876m. But the aim is not just to cut costs; it is also to push GPT in a new direction.

This change is being forced upon it as the UK telecommunications market is opened up to competition.

Thus a financial fence has been erected around GPT's traditional business of supplying BT, to prevent it consuming the resources, technology and management which GPT's new businesses need to generate growth. Before, all the businesses used to carry some of the burden of the large overheads for the System X work. As a result many of the smaller businesses could not make the kind of returns needed to survive. Now they only have to cover their own overheads and this has reduced the financial burden upon them.

The new businesses come in two varieties. First, a range of new products, such as sophisticated public pay phone systems, video conferencing and mobile telephones is being developed. Second, the company is trying to turn itself into a telecommunications software house.

Computer software is becoming increasingly important in telephone systems, to integrate switches, exchanges and handsets. GPT wants to provide the software for Siemens' hardware. Mr Steve Harbour, GPT's marketing director says: "We are ahead of Siemens in this area because the liberalisation of the British telecommunications market has forced us to examine what customers want."

Back at head office, senior GEC executives believe the relationship with Siemens is stable. Lengthy negotiations over Vision One, the $2bn joint research programme to develop the next generation of large switches and mobile telephones have settled the most difficult question: how much each company would put into research.

However, many within GEC harbour doubts about the alliance's prospects. A senior GEC non-executive director highlights several areas of potential weakness: "GPT's capacity to stay with the game is not that convincing even with the link to Siemens. The German company has not put all its telecommunications resources into GPT, which means GPT's interests do not always coincide with Siemens'. The short-term nature of GEC's financial controls makes it difficult for GEC to think about the future in the way that Siemens does."

There are three main sources of tension.

● The relationship is technologically unequal. GPT's technological dependence upon Siemens' strength in semi-conductors is reflected in Vision One. Not only is Siemens leading more projects than GPT, it is leading the big projects on public switches and mobile telephones. GPT is fitting into Siemens' plans as a specialist sub-contractor.

● The shareholding structure is unequal. This is not really a joint venture. Siemens has bought a minority stake in GEC's telecommunications business, but it has kept its own telecommunications business, which is Siemens' largest single division with a turnover of DM 11.26bn, completely separate.

● The two parent companies' management approaches are very different. Mr Walsh remarked: "We have to be more organised to work with Siemens, play to agreed rules. They do not like doing things by the seat of their pants, they are much more formal and a bit insular."

It seems unlikely that GPT will break up, if only because financial pressures will encourage GEC and Siemens to stay together.

It is almost certain that eventually Siemens will want to translate its technical predominance into management control by buying GEC's stake. But that is not on the cards at the moment.

Lord Weinstock explains: "There is no reason to think about selling to Siemens at the moment because we do not need the money. We have got cash building up again and we have just gone through tortuous negotiations to settle the business down."

Siemens has some much bigger problems of its own to sort out – the losses at Siemens-Nixdorf, the computer maker, the financial drain of its semi-conductor business and its ailing nuclear power activities. For the foreseeable future the two partners will rub along together, trapped in a rather loveless marriage.

As a senior Stanhope Gate executive describes it: "With the French there is a friendliness, there may be arguments but there is a lot of bonhomie. Siemens has to have big meetings and they have to do things very laboriously."

But for GEC the success or failure of these ventures needs to be judged against the purposes they serve.

Financially they make sound sense. GEC-Alsthom should generate good profits, as Alsthom's technology pulls in the orders and GEC's financial controls drive down costs. Similarly, savings at GPT contributed to GEC's cash gains last year.

Also, by demerging the group through joint-ventures, GEC's sprawling activities have become more manageable. This is reflected in the impetus the ventures have delivered to GEC managers. Long-standing weaknesses which were not adequately addressed when these businesses were run by GEC are now being addressed: GE is helping to rationalise consumer appliances; a revolution is under way at GPT; and at GEC-Alsthom the British managers are revelling in a new found sense of identity and purpose.

The vital telecommunications and engineering ventures are the route GEC needs to take if businesses oriented to Britain and the Commonwealth are to gain a European base. In the past three years GEC's profits from continental Europe have risen by 42 per cent to £199m, offsetting a sharp decline in the UK.

The GEC-Alsthom merger has created a business which should become one of the best companies in Europe. It is in excellent shape to take on the likes of Siemens or ABB, and GEC has found a European home for much of the UK's heavy engineering inheritance which is the envy of many of its competitors.

The alliance with Siemens does not have the same momentum. GEC's achievements in forming the venture with Siemens look feeble compared to the giant strides Alcatel of France made by buying ITT's European business – a move that made it one of the largest telecommunications groups in the world. However the venture has given GPT much needed breathing space.

Each of the ventures has a good rationale. But what of their consequences? GEC's consumer appliances business is being remodelled by a manager from GE who will take it ever closer to its US partner. French managers dominate the senior ranks of GEC-Alsthom. And Siemens' technology means it will dominate and probably eventually control the telecommunications venture.

GEC is increasingly at one remove from the management of the assets which generate a rising share of its profits. The joint ventures are unlikely to lead to GEC being broken up by stealth. But it may become a semi-detached industrial group.

FAST TRAIN: Lord Weinstock with a mock-up of the Trans Manche Super Train which will be manufactured by GEC-Alsthom.

PART FOUR TOMORROW
The Weinstock enigma

ARTS

Song recitals

To London music-lovers Cheryl Studer is known as the face that launches a thousand record covers. The few live appearances she has made here have told us relatively little about her. In Wagner's *Lohengrin* or as the gleaming top soprano in Mahler's Eighth Symphony, it has been Studer first and foremost as a remarkable voice who has left audiences wanting more.

The recordings have given us more – operatic roles many and various. Those are still eagerly awaited at Covent Garden and there seems to be no sign of them as yet. But, as a substantial makeweight, Studer appeared in recital at the Royal Opera House on Friday with Wagner and Strauss dominant in her programme, on the face of it a sensible choice.

Unfortunately there was disappointment in store. The opening Schubert group may have been largely an opportunity to warm up, but it introduced irritants which were to settle in for the evening. The pitch tended to sag in the middle of the voice. The singing bumped along the consonants. Nor was there a lot of spontaneity at this stage in her partnership with Irwin Gage, who was laying bare the inner workings of Schubert's piano parts with cool precision.

To my ears, this was the work of a singer who was trying so hard to do the right things that any natural sense of musicality was being pretty thoroughly smothered. One sensed Studer needing to break free from such small scale works and to some extent she succeeded in doing so in Wagner's *Wesendonk Lieder*, although even there the voice was asking for an orchestral accompaniment if it was to sound at its best.

The second half, in which she sang Richard Strauss, remained mixed. Slow songs continued to stagnate; but when speed or muscular strength was called for, as in "Ständchen" or "Zueignung", the singing took off with the help of Gage's exemplary playing, and Studer's potential as an interpreter of songs could at last be glimpsed. The audience response was enthusiastic. Warm enough, I hope, to encourage her to return in the operatic roles we all long to hear.

•

By chance, Wagner's *Wesendonk Lieder* turned up again three days later, when Anne-Marie Owens gave a recital at St. John's, Smith Square. This was an altogether less problematical performance, in which the music flowed easily. This mezzo does not pose difficulties of style for herself and the general amplitude and romantic warmth of the songs were well sustained, even if there is rather more depth in them than she finds.

In the past year or two at this hall, Malcolm Martineau has come to judge the acoustics to a nicety and he gave his singer accompaniments with plenty of atmosphere. A Schumann group might have shown a more detailed grasp of the words; the Debussy songs and her Spanish selection settled into a warm-hearted, easy-going mood a little too often. All through, however, one felt musicianship naturally at work, singer and song in harmony together.

Richard Fairman

Liliane Montevecchi and Brent Barrett

Grand Hotel

Vicki Baum's original German novel of 1929 came to fame in the early 1930s as a Hollywood movie starring among others Joan Crawford and Greta Garbo, and was the vehicle for Garbo's celebrated line "I vant to be alone".

Since then there have been remakes, including one called *Weekend at the Waldorf* with Ginger Rogers and Walter Pidgeon.

Much more recently the musical diversion has been a widely acclaimed hit on Broadway. The show opened with a different cast at London's huge Dominion Theatre yesterday.

Since a large part of the audience plainly appeared to enjoy it much more than I did, I shall be gentle. For every criticism I make, there is probably a *perfectly reasonable response*.

The adjective that most immediately comes to mind about *Grand Hotel* is "heavy". The hotel is grand in the sense of big, not splendid, rather as *the Germans tend to have* grand rather than big coalitions.

Moreover, the difficulty in trying to portray elegance in a stage musical is that Hollywood does it so much better.

It might be said that this is Berlin 1928, so what do you expect from central Europe at that period? Well, I would have liked a few more jokes, a bit more sharpness and perhaps even some satire.

There is very little plot to speak of. Again it might be claimed that that is precisely the point. As the doctor/narrator says of the hotel "guests come, guests go, new guests arrive." True enough, but it is still pretty thin for a story line.

It is also odd to play a musical as big as *Grand Hotel* without an interval.

To be sure, the show last only 2¼ hours, but that is a long time for one sitting, and there is certainly room for a natural break. Possibly the task of getting the audience back to their seats in such a *large theatre was thought too* daunting.

Apart from that, how does one enjoy the music? The answer is not a great deal. *Grand Hotel*, with songs by Robert Wright and George Forrest, *seems to me to lack the* subtlety and sustained sweep of the best of Sir Andrew Lloyd Webber, by which I mean in particular *Evita* and *Phantom*, both of which have stories to go with them.

There are, however, some fine performances. Liliane Montevecchi in the ballerina part once played by Garbo takes a while to warm up, but you can see the attraction of the role.

In the one scene that is remotely dramatic, Lynnette Perry distinguishes herself as the secretary whose seduction by her boss threatens to get out of hand.

Brent Barrett is an effective, poverty-stricken baron, seven months behind with his hotel bill. Many people will admire Barry James as the Jewish book-keeper who ends a happy man, though for my part sentimentality is never far away from the whole show. The dancing – foxtrot, Charleston, ballet and waltz – is good.

Grand Hotel is directed and choreographed by the appropriately named Tommy Tune.

Malcolm Rutherford

Dominion Theatre, (071) 580 8845

Television/**Christopher Dunkley**

Quality in proportion some forty years on

The devotion of the entire BBC2 schedule on Sunday evening to *A Night With Alan Bennett* – with the programmes chosen by him – has been dismissed by some commentators as merely another way of dressing up a bundle of old repeats. This seems overly cynical.

In the past 40 years British television has produced some superb material and it would be absurd if there were no repertory system enabling us either to see admired programmes again or to catch up on some we have missed.

Though I had already seen the 1973 episode of *Whatever Happened To The Likely Lads* and possess a cassette copy of Mike Leigh's exquisitely embarrassing drama *Abigail's Party*, I was glad to watch both again and modify my feelings about them.

The comedy is over-rated and suggests that today's sitcoms may not be as inferior as we tend to feel (*One Foot In The Grave* on BBC1 on the same evening was far funnier than the old *Likely Lads* episode, though to be fair Bennett's choice was doubtless limited by what is available in the archive).

The *Leigh* drama is probably the best he has ever done, though its appeal seems increasingly clearly to depend upon sheer snobbery.

Having never seen Melvyn Bragg's 1965 *Monitor* profile of Sir John Betjeman or Malcolm Mowbray's bizarre and captivating 1981 drama *Days At The Beach*, I was delighted to be given "another chance to see" both, and cannot understand why people who happily pay money to go and watch *Casablanca* for the umpteenth time (yes, yes, of course it is a terrific movie) claim that they are being cheated if television shows any programme more than once.

As the number of television channels grows it is surely more important than ever that at least 20 or 30 per cent of material produced by any self respecting television service ought to be worthy of – *indeed demanding* – a repeat.

Perhaps the most interesting aspects of this evening, however, were Bennett's remarks in introducing his choices. In contrast to Frank Muir's flippant and almost pointless comments in the Channel 4 series *TV Heaven*, Bennett's were thoughtful and pointed.

The odd thing is that, seeing Bennett as such a devotee of the past, so ready to luxuriate in nostalgia, I found myself reacting against his pessimism about the present standards of British television, even though his remarks mainly chimed with the recent tone of this column.

Rightly enough, Bennett criticised our recent governments for doing so much to harm British television. But when, like so many others, he sighs for the days of "Play For Today" and the period of *Cathy Come Home* and *Edna The Inebriate Woman*, praising the regular stretching of the audience's imagination and giving *the impression* that there is no longer anything to compare with those days, somebody should remind him of *GBH* and *Tumbledown*, *Oranges Are Not The Only Fruit*, and even his own *Talking Heads*.

At least until fairly recently British television has continued to produce a remarkable proportion of programmes which, judged against international standards, are outstanding. But there is that bogy word again: proportion. However many impressive programmes one can name from the past few years to challenge *the supposed supremacy* of sixties television, the rush down-market which is occurring right now is difficult to deny.

What is so worrying for the future of television is not the feeling that there is nobody left with the desire or ability to make good programmes, but the feeling that they are being overtaken by a rapidly growing avalanche of trivia.

The cheap, shallow, sensational and instantly forgettable is on the increase at the expense of that which is thoughtful, difficult, demanding and inspiring. Most disheartening is not merely the increase in formula programmes and the decrease in individual and idiosyncratic material, which I suspect is a major part of Bennett's complaint, but those rapidly changing proportions.

Instead of just filling quite a lot of time, trivia is beginning to seem universally dominant... except on BBC2, which is already starting to look like *the last redoubt of the thinking viewer*.

Take the big television topic of the week in the tabloid press: BBC1's *Eldorado*. As soap operas go, there is not a lot wrong with this one. It *neatly folds in some of the glitz* of *Dallas* with the sort of girls and boys who swarm in *Neighbours*, and raises the sex quotient a bit: today's episode has the faded blonde torch singer, Trish, in bed with her teenage German toyboy, Dieter. No doubt there will be protests about the nine o'clock watershed.

The sun, sea and sand make a change from a Manchester terrace or an east London square; where the existing soaps are Anglo-dismal this one is Euro-fun. True it is tediously anti-man (the plumber can't plumb, the toyboy can't toy, a husband cannot even be relied upon to put a prepared chicken in the oven) but in today's television that is more than trendy, it is de rigueur.

It would be curmudgeonly to deny viewers the right to bathe their work-weary minds in lukewarm soapsuds if that is what they want, and apparently millions do. But is it not a little worrying that BBC1 is using it to fill six half-hour slots a week (three episodes, each with a repeat)? Since the same network is already providing 10 doses a week of *Neighbours* and three of *EastEnders* it is a significant increase in soap at the expense of other material on a channel which seven years ago *contained no soap at all*.

Of course soap opera is not the only symbol of this rapid and radical change. On Saturday, Channel 4 launched *a current affairs series* tellingly called *The Big Picture Show*, the sort of title hitherto used for children's programmes or cinema series. There is nothing wrong with the intention, which is to deal with some major topic (this week crime) by breaking it down into constituent parts and having an "expert", or a journalist willing to act like one, expatiate upon each bit.

The ominous point is that instead of trusting the quality of their journalism, the producers have felt it necessary to "sell" the thing by getting *Clement Freud's buxom, bubbly daughter* Emma to front it. Thus at every opportunity the camera *comes back to* her, so that she can read a bit of autocue and bounce the key light off her lipstick. All promotions for the programme – in listings magazines, press releases and so on – feature sultry photos of La Freud rather than the subject matter or the expert journalists.

Yet however questionable that may be, it looks like dinner at All Souls when compared to ITV's new tabloid series at 7.15 on Sundays, *The Richard And Judy Show*. This employs the husband and wife team of Richard Madeley and *Judy Finnigan, presenters of* ITV's daytime magazine programme *This Morning*. They sit in a studio and ask of toe-curlingly embarrassing questions.

The tone mixes cosiness, prurience and funk. Thus Roy Cornes, the man at the centre of the campaign by people in Birmingham to put the Aids frighteners on heterosexuals, was first handed an all-purpose Freudian get-out by Madeley, then encouraged to chat about condoms by Finnigan, but never required even to hear the words "anal intercourse" *from either*.

John and Jan Ward, parents of the young woman who disappeared in Kenya, presumed murdered, were interviewed about the state of their marriage, and so on.

It is too soon to be sure that Alan Bennett is right about the decline of British television drama, but in television generally you can hardly miss the current leapfrog scramble to get as far down market as possible.

Judy Finnigan and Richard Madeley: cosy prurience

Bruce Springsteen

Rock in London this summer offers visits from almost the all the People's Favourites, from Genesis to Michael *Jackson, and there is no more* wholehearted Man of the People than Springsteen. Wembley Arena rose as a single body to hail his appearance.

It is easy to sniff at Springsteen, dismiss his music as unsophisticated and its subject matter as irredeemably small-town American. Those persistent topics, that raking over the ashes of dead romances, the importance of family and home, always suffused with an aching patriotism and more than a hint of revivalist religious fervour seem so quintessentially American that one first all doubts their potency *beyond its borders, fails to see* the universality behind the songs.

It's the sincerity that does it, I'm sure. There is something heartwarming about him, a direct honesty in the performance which disarms even the most persistent cynicism. When Springsteen asks if anyone out there has ever lost their faith in love and receives back a roar of confirmation, the reflex grab for the sick bag is temporarily stayed; something hints that the man means it, that he is offering himself as a prize example of how to win through, to take all that life can throw at you and come through on the other side wiser and eventually happier.

For several years it seemed as if the happily ensconced Springsteen – wife, two children – had settled for that connubial bliss and the occasional unheralded appearance in other people's low-profile gigs. But a brace of albums earlier this year kickstarted a world tour, complete with new band and a rebirth of the Springsteen fervour. Those fans who spent the entire Wembley concert on their feet, arms outstretched, mouthing every word of every song, and interspersing them with the ritual calls of "B-r-o-o-o-c-e!", must *have doubted that their* time would ever come again.

He is still a magnetic performer. The audience, starved of its hero for so long, was going to cheer him to the echo anyway, but the energy he expended and the intensity he created were prodigious. There is only one survivor from the E-Street Band in the new line-up and the sound seems crisper, more tailored than before; its neat lines and clean rhythms counterpoint *Springsteen's rasping guitar*.

Of course the latest songs do trawl familiar territory. The old material has been recycled and sorted, retaining enough *to satisfy the faithful. But it* does not jar against the new, for they rely still on straightforward harmonic skeletons and clean-cut structures; the framework has to be robust enough to take the emotional freight that Springsteen loads upon it.

It misfired very occasionally. The inevitable "Born in the USA", second in the running order, was dutiful rather than electric (and surely too *slow), and even that was* immediately countered with storming versions of "Local Hero" and "Darkness on the Edge of Town".

Afterwards he scarcely missed a trick, nor an opportunity to deliver a wise homily to the audience. The ingredients in his special brew of hard rock, soul and gospel, were constantly refreshed and mixed anew, and *the fans* knew they had seen the rebirth of their hero.

Andrew Clements

Wembley Arena. Further concerts July 9, 10, 12 and 13

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

Concertgebouw 20.15 Reinbert de Leeuw conducts the New *Sinfonietta Amsterdam in works* by Liszt, Wagner and Richard Strauss, with Thomas Zehetmair violin soloist in K A Hartmann's Concerto funèbre. Tomorrow: Orchestre National de Lille. Fri, Sat and Sun: Frans Brüggen conducts Mozart (671 8345)

■ ATHENS

ATHENS FESTIVAL

At the Odeon of Herodes Atticus tonight and tomorrow at 21.00, the National Greek Opera Ballet performs Mendelssohn's A Midsummer Night's Dream, *choreography by Germinal* Casado. Next week: Piña Bausch's Tanztheater Wuppertal. July 23 and 24: Sankai Juku, Japanese Buto Dance Theatre. July 29-Aug 2: American Ballet Theatre (322 1459)

EPIDAURUS FESTIVAL

The annual festival of ancient drama in the 14,000-seat amphitheatre at Epidaurus has performances of plays by Sophocles, Euripides, Aeschylus and Aristophanes on most weekends in July and August. *This week's performances (Fri* and Sat at 21.00) are of Sophocles' Electra, in a production by the National Theatre of Northern Greece.

Tickets are available daily at the Athens Festival box office (322 1459), or at the theatre of Epidaurus every Thurs, Fri and Sat (0753-22006)

■ HAMBURG

Ray Charles and Nancy Wilson appear in concert tonight at 19.00 at the Freilichtbuhne Stadtpark. Tomorrow at Delchtorhallen: final night of Jazzport 92, with Sergio Mendes and Brazil 99. Fri: Ringo Starr's All Starr Band. Next Wed: *Dire Straits (270 1169). Daily in* Deutsches Schauspielhaus: West Side Story (248713)

■ LONDON

Covent Garden 19.30 Carlo Rizzi conducts John Cox's new production of Il viaggio a Reims, with a cast led by Montserrat Caballé, Della Jones, Sylvia McNair, Renée Fleming and John Aler. Runs till July 17, with next performance on Fri. Tomorrow: La Fille mal gardée. Sat: ballet triple bill including Ashton's A Month in the Country. The Royal *Ballet season continues until* Aug 8 (071-240 1066)

Coliseum 19.30 Australian Ballet production of Coppélia. Tomorrow till Mon: Giselle. The *season runs till July 18 (with an* extra matinee performance on Saturdays) and includes a mixed bill of one-act ballets next week. *July 21 - Aug 1: Alvin Ailey Dance* Theatre (071-836 3161)

Barbican 19.45 Iona Brown directs the Academy of St Martin in the Fields in Mozart's Haffner Serenade and Beethoven's First Symphony. Tomorrow: Shell-LSO *music scholarship final. Fri:* The Dubliners. Sat: Yehudi Menuhin conducts a Beethoven programme. Sun: Colin Davis conducts the LSO. Next week: Carl Flesch International Violin Competition (071-638 8891)

■ MILAN

The final production of the season at La Scala is Cristoforo Colombo, a ballet choreographed by Alberto Mendez with music by Donizetti: *five performances* starting on Sat.

The opera company can be seen next week at the Seville Expo, where it will perform La traviata under Riccardo Muti (7200 3744)

■ NEW YORK

MUSIC

Carnegie Hall 20.00 First of four Tchaikovsky concerts by the New York Philharmonic Orchestra *conducted by Kurt Masur. The* programme tonight and tomorrow includes the Violin Concerto (Midori), Capriccio Italien and Fourth Symphony. The remaining concerts are next Wed and Thurs (247 7800). Tomorrow at Avery Fisher Hall: Janos Starker and Anton Nel join the Cleveland Quartet for string quintets and piano quartets by Beethoven, Mozart and Schubert (875 5030)

Metropolitan Opera 20.00 Kirov Opera production of Tchaikovsky's Queen of Spades. Tomorrow: Boris Godunov (362 6000)

THEATRE

● Best of Forbidden Broadway: tenth anniversary edition of Gerard Alessandrini's long-running, ever-fluctuating musical revue (Theatre East, 211 East 60th St, 838 9090).

● Dancing at Lughnasa: Irish National Theatre production of Brian Friel's story of five unmarried sisters living in 1930s rural Ireland (Plymouth, 236 West 45th St, 239 6200).

● Guys and Dolls: a revival of the Frank Loesser musical (*Martin Beck, 302 West 45th St,* 239 6200).

● Jake's Women: Alan Alda in Neil Simon's new play about an ageing writer trying to come to terms with the women in his life, past and present (Neil *Simon, 250 West 52nd St, 307* 4100).

● Ticketmaster answers inquiries and sells tickets for Broadway shows (307 4100) and rock/pop concerts (307 7171)

■ PARIS

Opéra Bastille 19.30 Swan Lake: Ballet de l'Opéra de Paris in a new production of Vladimir Bourmeister's 1960 choreography. Daily except Sun till July 25 (4473 1300)

Basilique de Saint-Denis 20.30 Claus Peter Flor conducts the Orchestre de Paris in Saint-Saëns' Organ Symphony and Fauré's Requiem (4243 7772)

Opéra Comique 19.30 Maurizio Barbacini conducts Michael Hampe's Cologne production of two Rossini one-act comic operas: La cambiale di matrimonio and Il signor Bruschino. Also Fri and Sun (4286 8883)

● An exhibition of stage designs by Pier Luigi Pizzi is on show at the Opéra Library Museum (8 rue Scribe) till Oct 18.

● A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898.

■ PRAGUE

A summer season of concerts has been organised in the city's historic buildings and gardens, with this week's programme built *on the theme of Mozart in* Prague.

Tonight in Wallenstein Garden: Banda Classica from Switzerland plays works by Mozart, Dvořák and Jan Klusak. Tonight in Monastery of St Agnes: Musici *di Praga in a programme of* Mozart concertos.

Tomorrow in South Garden of Prague Castle: Ensemble Ars Rediviva in works by Mozart and Czech composers of his time. Advance booking at the Smetana Hall (u Prasne brany 2, 232 5858).

● For pre-booking and information about other events, contact city centre ticket agencies (Bohemia, Na Prikope 16, 228738, or Melantrich, Wenceslas Square 38 in the passage, 228714).

■ VIENNA

OPERA

Every Wed, Fri and Sat at 20.30 over the next six weeks, the Kammeroper performs its production of Don Giovanni at the Imperial Gardens of Schönbrunn Palace. The cast is headed by Danish baritone Boje Skovhus (512 0100).

CONCERTS

Anatoly Kotcherga gives a recital of Russian and Ukrainian romances and folk songs tonight at 19.00 in OSG-Haus (Brahmsplatz 8, tel 505 6794). Philippe Bender conducts the Orchestre Regional Cannes Provence Alpes tonight in the Konzerthaus, with works by Roussel, Debussy, Ravel and Beethoven. Roberta Pili gives a piano recital tomorrow at *Schönbrunn. Fri at Palffy: Vienna* Atlantis Trio. Sat in Deutschordenshof: Austrian Chamber Philharmonic plays works by Danzi, Lachner and Reicha. Sun in Rathaus: Beethoven concert (4000 8410).

THEATRE

Vienna's English Theatre (Josefsgasse 12) has performances of Ray Cooney's comedy Run For Your Wife, daily except Sun (402 1260).

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN

2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel

0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV

2130-2200 (Tues) Media Europe – what's new in European media business

2130-2200 (Wed) FT Business Weekly – global business report with James Bellini

0830-0900 (Thurs) Media Europe

2130-2200 (Thurs) FT Eastern Europe Report

0830-0900 (Fri) FT Business Weekly

Sky News

0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN

0900-0930 World Business This Week – a joint FT/CNN production

1900-1930 World Business This Week

Super Channel

1930-2000 FT Eastern Europe Report

SUNDAY

CNN

1030-1100, 1800-1830 World Business This Week

Super Channel

1800-1830 FT Business Weekly

Sky News

1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Wednesday July 8 1992

Russia's place at the table

A YEAR AGO it was Mr Mikhail Gorbachev's plea for assistance that closed the summit of the Group of Seven industrial countries. Rebuffed, Mr Gorbachev returned home to the August coup, the termination of his career and the break-up of the Soviet Union. This year it is Mr Boris Yeltsin's turn. But if he too is rebuffed, the west is likely to lose more than it did by its denial of Mr Gorbachev. Mr Gorbachev had no vision of economic reform; for all his faults, Mr Yeltsin does.

G7 leaders must resent Mr Yeltsin's mixture of braggadocio and begging. Russia, he asserts, should be allowed to sit at the G7's high table. What is more, as a "great country", Russia cannot be asked to abide by conditions imposed on lesser fry.

The G7 should make it clear that membership of this august club is only for those able to make a positive contribution to the management of the global market economy. Equally, there can be no question of pouring funds into the bottomless pit of the Russian military-industrial complex. Nor can Russia be helped if it refuses to move rapidly towards a private market economy. Mr Yeltsin should also be reminded that the sufferings of the Russian people, both past and prospective, cannot be laid at the west's door.

Nevertheless, the west must take account of the way the unscrupulous will exploit popular discontent. The west may feel that beggars should not be choosers. But when the beggar is able to blow up the world, he can.

Small carrot

The west's interest remains in helping him make the right choices. The question is how. The problem is not that the west insists on conditions. It is that it is concentrating most attention on the wrong conditions and, still more, that its carrot is too small.

A total of $24bn is supposed to be on offer. But $8bn is for a stabilisation fund that may never be activated and, if activated, is expected never to be drawn down. A substantial part of the rest is for relief of debt service obligations that will, in any case, not be met. In short, the fresh resources that Russia might obtain, even if agreement were reached, is less than half the $24bn.

The west should reconsider both its priorities and the scale of assistance on offer.

The highest priority is rapid privatisation of land and of small and medium-sized enterprises, as well as creation of a legal framework to ensure the growth of private enterprise throughout Russia.

Budget constraints

The next priority is the commercialisation of state enterprises, debt restructuring and the imposition of credible budget constraints. Managers and workers in state enterprises must also see possibilities for enriching themselves when they make their enterprises more efficient.

The third priority is a system of payments that sustains commerce in the former Soviet Union, along with unification and convertibility of the rouble on current account. A fixed exchange rate is, for now, simply a fantasy.

The fourth priority is a macro-economic stabilisation at least sufficient to keep inflation under control and, ideally, sufficient to ensure that budget deficits can be financed without resort to the printing press.

Last and least, is continued debt service. Future historians will be astounded at the attention paid to sums that cannot be repaid and, in any case, barely matter against what is at stake.

The west will not obtain all that it seeks. But it must make sure that it does at least obtain an opening towards a private market economy. Without that, nothing should be given. Support should be given now without insisting upon all the other conditions. It should be made clear, however, that the further Russia goes, the more help it will receive. For really radical reform, the west should be prepared to offer as much as $100bn in net transfers over five years.

As in Europe after the second world war, a durable partnership must now be established between serious Russian reformers and the west. The west should overlook Mr Yeltsin's bluster, persist in helping Russian reform and be prepared to distinguish what is essential from what is desirable.

Mr Yeltsin can, indeed, be irritating. But he offers what may prove to be a unique chance. It is one that must be taken.

Stormy forecasts

IT HAS been a particularly chastening recession for Britain's economists. Spotting turning points is the hardest task for economic forecasters, as well as their *raison d'être*. But their recent record has been particularly bad. Having failed to predict the recession, most economists have been expecting Britain's recessionary cloud to lift for a year or more. Yet, defying the forecasts, it just keeps raining all the time.

Mocking economists is a rather cheap, if satisfying, pastime. Many professions require some ability to read the future; and politicians, business executives and journalists have all been fooled by the stormy nature of this cycle. Yet accurate forecasts remain as necessary for policy-makers and wage-bargainers as for business.

How far-sighted, then, of the Treasury to commission an investigation into recent forecasting performance. The National Institute for Economic and Social Research may not be the most independent of auditors or unbiased of critics. Nor is the main conclusion of its preliminary report particularly earth-shattering. Extrapolating the past into the immediate future is not much help when the immediate future is radically different from the immediate past: this point has surely sunk in by now.

Yet the NIESR report does implicitly criticise the funding policy of the Economic and Social Research Council. The bulk of the government's £2m budget, on top of the funds spent on the Treasury's own model, funds two other models, at the NIESR and the London Business School. Both are similar in design to the Treasury model, and all three have made very similar errors since 1985. Yet more iconoclastic (and recently more successful) forecasting teams at Cambridge, Liverpool and City universities have all had their funding withdrawn over the past decade. The public interest would be better served by a policy that promoted choice and diversity rather than a cosy cartel of like-minded clones.

The fault, however, lies not with the models themselves, but with those who use them. Politicians, journalists and economists have treated econometric models with undue reverence. Forecasts of the economy do, in fact, deserve to be treated as sceptically as those of British weather.

Dentists' fees

THE FEES earned by UK dentists for treating national health service (NHS) patients today fall by seven per cent. In retaliation, the dentists have voted for a partial withdrawal from NHS work. Unhappiness over the terms of the current contract under which most dentists work has already started an exodus from NHS dentistry in some areas. This now looks likely to spread.

The government says that the fee cuts are needed because dentists are earning more than the target net income set by their pay review body. Dentists have succeeded in signing up many more patients than anticipated when setting the fees. However, the cuts send out an unfortunate signal about the government's commitment to relating rewards to performance. And given the value of preventive dentistry in improving dental health, it is doubly unfortunate that the cuts are implemented on the same day as the white paper on improving the nation's health is to be published.

Ministers' response to the gathering crisis has been to promise a fundamental review of dentists' remuneration, a move which is long overdue. It would examine criticisms that the current contract undervalues preventive work. It should also look at regional differences in costs such as salaries, rents and other overheads, so that dentists' income for NHS work bears some relation to their expenses.

More radical options should also be explored. Some work currently available free or subsidised on the NHS is mainly cosmetic, with little value in health terms. And with most adults already paying 75 per cent of the cost of NHS treatment, charging them the full cost should be explored to release resources for improving incentives for dentists to sign up the 25m unregistered people and offer them regular checks.

The sooner Mrs Bottomley gets her review under way the better for those who rely on the NHS for dental treatment. Meanwhile, dentists should put their threat of partial withdrawal from NHS work on hold until that review is completed.

Nestlé is awaiting Brussels' decision on its takeover of Perrier, which is crucial to its growth strategy, says **Guy de Jonquières**

A thirst for expansion

Nestlé: seeking some fizz for profits

Helmut Maucher: chairman

Results (SwFr mn)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Consolidated sales	27,664	27,943	31,141	42,225	38,909	34,183	39,502	48,036	46,369	50,486
Consolidated net profits	1,098	1,261	1,487	1,750	1,843	1,879	2,058	2,412	2,272	2,470
Net margin (%)	4.0	4.5	4.8	4.1	5.0	5.5	5.2	5.0	4.9	4.9

From their headquarters in the Swiss lakeside town of Vevey, managers of Nestlé, the world's largest food company, look out on a placid picture-postcard view disturbed only by the passing of an occasional paddle steamer. But inside the building, the atmosphere is tense with anticipation.

In the next month, the European Commission will decide whether Nestlé may complete its FFr15.46bn (£1.58bn) takeover of Perrier, the French mineral water group acquired after a hard-fought battle with the Italian Agnelli family.

The decision is central to Nestlé's plans to become at a stroke the world's leading mineral water supplier – it is already the biggest producer of dairy products, chocolate and soluble coffee – and to its ambitions to raise profitability to new levels in the 1990s.

"We feel we must break out of this limitation which has seemed like a sound barrier in the food industry – the idea that a 5 per cent net margin on sales is really very good," says Mr Reto Domeniconi, finance director and chief architect of the Perrier deal. He thinks 6 per cent is achievable.

Perrier, whose profits have been depressed since a benzene scare two years ago, could fit the bill nicely. Industry analysts estimate that, by rationalising Perrier and beefing up its marketing, Nestlé could earn operating margins of 20 per cent on mineral water, twice the return on its existing businesses.

However, Brussels says the deal could give Nestlé and BSN, France's largest food company, a duopoly of the French mineral water market. This is the first time EC merger watchdogs have objected to a deal on duopoly grounds, and Nestlé – which is counting on takeovers to fuel much of its growth – fears the case will set a restrictive precedent. Says Mr Domeniconi: "If they upheld the duopoly position, it would be a very major hurdle to many future acquisitions," particularly hostile ones.

Whatever the outcome of the case, Nestlé will remain determined to pursue worldwide expansion by any route it can. Mr Helmut Maucher, chairman, says he sees more growth opportunities in food than at any time in his career. By 2000 he aims to double last year's sales of SFr50.5bn (£19.3bn), the sixth largest of any publicly quoted European company.

Since the German-born Mr Maucher became chief executive in 1981, he has transformed Nestlé from a sluggish and sprawling multinational into an aggressive global player by injecting a more decisive management style, impatience for results and a streak of shrewd opportunism.

Long a highly acquisitive company, Nestlé spent about SFr20bn in the 1980s on takeovers, notably of Carnation in the US and Rowntree in Britain. In the past five years, it has invested on average SFr2bn annually to restructure operations in the US and Europe and expand in Asia, Africa and the Middle East.

These moves are now paying off. In the US, Nestlé increased sales last year by 5 per cent in a stagnant grocery market, while its European operations, some of which lost money in the 1980s, all traded profitably. Rowntree has flourished, increasing profits and market share.

Though traditionally averse to alliances, the Swiss company recently formed two important joint ventures. One, with General Mills of the US, is challenging Kellogg's worldwide leadership in breakfast cereals, and the other, with Coca-Cola, is in canned coffee and tea.

In the past year, Nestlé has radically reshaped its management structure by grouping activities into strategic business units, which marry geographic and product responsibilities. The aims are faster decisions, more coherent strategy and improved co-ordination of the company's far-flung operations in more than 100 countries.

Next year, Mr Ramon Masip, Spanish head of Nestlé's European operations, will become chief operating officer, freeing the 64-year-old Mr Maucher to focus more on broad strategy. Mr Maucher, who enjoys personal authority rare in a company of Nestlé's size, is already scouting for fresh acquisitions, particularly in the US, where he believes the takeover market may be livelier than in Europe.

Nestlé's horizons are not limited to food and drink. In the 1970s, pessimism about food manufacturing led it to buy Alcon, a US pharmaceuticals company, and to acquire indirectly 27 per cent of l'Oréal of France, the world's biggest cosmetics manufacturer. An agreement gives Nestlé first refusal on the rest of L'Oréal after the death of Mrs Liliane Bettencourt, the French company's largest shareholder.

The agreement expires in 1994, and Nestlé's exercise of its pre-emptive rights would require French government approval. But Mr Maucher already talks openly of eventually taking full control.

Although Nestlé claims it can find "synergies" with Alcon and L'Oréal, Mr Maucher admits these investments stem as much from financial as industrial logic: "Nestlé could live without L'Oréal. It was a fantastic investment ... why not have a second big egg in a company basket?"

He also insists that Nestlé's dominant business will remain food manufacturing, and is focusing much attention on developing countries, where he expects future growth to outstrip the mature industrialised markets which provide four-fifths of Nestlé's sales.

Nestlé's role in the third world remains a touchy issue. It has operated there since late last century, and its manufacturing and distribution network is rivalled only by Unilever. But the Swiss company is still haunted by a controversy from the 1970s, when it was accused of promoting baby food sales by urging mothers to abandon breast-feeding.

Nonetheless, it believes economic reform and free-market policies have lessened developing countries' hostility to multinationals – and its drive to capture new markets there is moving into high gear.

In Latin America, it plans to spend SFr3bn this decade after freezing new investment in the 1980s. It recently entered the ice-cream market in China, where it is also negotiating several other ventures, and is building a network of plants in south-east Asian countries which have agreed to cut tariffs on its products by 90 per cent.

At Mr Maucher's insistence, the company is developing a range of "popularly positioned products" (PPP) which it can produce cheaply in developing countries using local raw materials such as soya. The project will test the success of a recent shake-up of Nestlé's research operations. Although these are among the biggest in the food industry, the company has long been accused of being slow to innovate. Some critics argue that its last real world-beater was soluble coffee in 1938.

Executives respond that continuous updating and adaptation of existing products pays bigger dividends than searching for blockbuster breakthroughs. However, they also admit that house-cleaning was long overdue at its research laboratories, which had lost touch with the needs of the business.

But for all its confident expansionism, Nestlé's future growth will depend heavily on maintaining the success of established businesses such as Nescafé. Here, it faces three main challenges:

- Coffee supplies: although Nestlé has benefited from the steep fall in world prices, it is increasingly concerned that production cuts will trigger a sharp price rebound. It is lobbying, so far with little success, for a new international coffee agreement which would stabilise prices.
- The rise of retailer power: Nestlé fears its formidable marketing clout is being eroded as the European grocery trade concentrates into fewer big supermarket groups, which increasingly promote their "private-label" products in competition with those of branded manufacturers.

Mr Peter Brabeck, Nestlé's chief marketing strategist, says the product range it sells through large supermarkets is narrowing as they tighten the screw on manufacturer brands. The squeeze, he says, has been made worse by a decline in the effectiveness of mass-media advertising, traditionally the branded manufacturers' main means of communicating with consumers.

Mr Brabeck plans to experiment with new distribution channels and marketing methods, such as buyers' clubs and loyalty bonuses. But some colleagues think action by EC competition authorities may be the only long-term check on retailers' growing power.

- Uneven margins: Nestlé earns huge profits and cash from chocolate and soluble coffee. But margins are far less impressive on products such as pet food, yoghurt and ice cream, where Nestlé is either not dominant or competes in highly fragmented markets. Mr Maucher says it is hard to find new products which can match Nescafé's profitability.

Mr Domeniconi concedes that weaker operations may eventually have to be eliminated or strengthened through acquisition. But Mr Masip says the company can afford to carry them for some time, although he declines to say which are considered "strategic" long-term businesses: "I don't think we have a very clear idea ourselves, because this is a moving target."

With annual cash flow of more than SFr4bn and a triple-A credit rating, Nestlé has ample resources for further takeovers. Indeed, it has sometimes been accused of buying its way out of mistakes by making high-priced acquisitions, such as the £2.6bn takeover of Rowntree in 1988, launched after the Swiss company had allowed its own share of the UK chocolate market to slide.

Nestlé has long relied on issuing equity to fund takeovers and investment, which has kept its balance sheet strong but limited earnings growth. Now it aims to limit cash calls in an effort to boost its price/earnings ratio, so it can use its shares to pay for takeovers without diluting earnings.

More than half of Nestlé's shares are owned by foreign investors, whom it has diligently courted since the late 1980s by liberalising its share register and disclosing more information. However, voting-right restrictions still protect it against takeover.

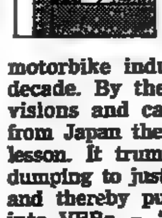
But in opening up to foreign investors, is Nestlé not worried about falling prey to the short-term preoccupations of Anglo-Saxon institutions? Mr Maucher sounds unperturbed.

"I think a lot of those investors will have a portfolio of solid growth security in Nestlé shares, and a portfolio of more speculative shares," he says. "They cannot keep everything in one basket."

PERSONAL VIEW

Preaching pragmatism to free trade church

By Ronald Dore



The free trade church is in need of a Reformation. Consider Britain's recent history. From the first impact of Honda's arrival to the death of the British motorbike industry was about a decade. By the time colour televisions and cars began to come from Japan the UK had learnt its lesson. It trumped up charges of dumping to justify punitive tariffs, and thereby pushed the Japanese into VERs – "voluntary" export restrictions. They responded – resentfully and reluctantly – by manufacturing inside the UK market. The result: Britain now has flourishing colour television and car industries.

True, sad things have happened to British companies in those industries. But they would have happened anyway – faster and more brutally – under free trade. And at least a very large chunk of the value-adding activity which goes into making our cars and televisions takes place in the UK and generates labour incomes in the UK. As for the capital income – who gets the profits – British insurance companies and pension funds long ago shifted their investments out of British car manufacturers and into Toyota and Nissan.

British bureaucrats had stumbled on a sensible and pragmatic form of protectionism. But how will the economist high priests of the free trade orthodoxy describe it? As the unprincipled and self-defeating expediency of short-sighted politicians. They will tell you precisely how much extra this protectionism makes us pay for our cars; how big the extra profits of Nissan and British Rover. What they will not tell you is how much of the "consumer surplus" yielded by cheaper cars would have been mopped up in unemployment pay, or how many fewer pounds we would have had for spending on cars if the car industry had gone the way of the motorbike industry.

The high priests of free trade frequently pretend to despise such a self-centred single country calculation. Has world GNP been increased or diminished by British protectionism? The answer is it has probably increased. Thanks to the chicanery of anti-dumping tariffs, less of the Japanese surplus has been channelled into buying US Treasury bonds and real estate, more into direct overseas investment, thereby doing more to add to world efficiency by diffusing their work practices around the world.

Japanese firms would come to Europe, not resentful at being bludgeoned by charges of unfairness

Suppose we did reform the General Agreement on Tariffs and Trade (Gatt) to allow for such sensible pragmatism. What might it mean in practice?

First, it would mean dropping all the provisions which allow protectionist measures to be justified by charges of dumping or hidden subsidies. (But not those that allow developing countries to protect infant industries to gain learning time.) Anti-trust prosecution of predatory pricing can still continue – without discrimination between imported and domestically produced goods.

Second, introduce a new concept: Investment Inviting Import Quantity Restrictions (IIIQRs). These do not, like anti-dumping actions, say: "You are cheats and we are going to block your imports." They say: "You are clearly more efficient than us. But we don't want to lose the industry. We shall import only a certain number of your widgets per year for the next ten years. But by all means come and manufacture here. We shall give you all the facilities available to domestic start-ups, though we shall insist on enhanced phased-in local content rules."

The conditions for IIQRs should be defined tightly in the Gatt – in terms of an industry's share in GNP, its multiplier effects on the economy, the growth rate of import penetration, and so on – taking care, probably by some measure of labour-intensitivity, that IIQRs cannot be used against developing countries' attempts to escape poverty by trading on their sole – cheap labour – advantage.

What are the implications of such a Lutheran shift, making free trade no longer absolute virtue, and discrimination no longer absolute vice?

- An end to the most poisonous feature of our current hypocritical orthodoxy; the fact that the way to practice (frequently sensible) protection is by calling a trading partner a cheat. It takes experts to expose the dishonest chicanery of anti-dumping suits. But every newspaper reader can see how unhealthy Japan-bashing is for US politics, let alone international relations.
- Japanese firms would come to Europe, not resentful at being bludgeoned by charges of unfairness, but flattered at the acknowledgement of their solid competitive strengths. They would be more ready to comply honestly with local content rules.
- Acceptance that discrimination against states with an inbuilt structural surplus is legitimate – as Keynes argued in the 1940s when it was the US which was the obvious target for discrimination. Such discrimination is a recognition that we live in a world community – just as the universal practice of progressive taxation which discriminates against the wealthy is a recognition that the nation is a community.

To be sure, there are problems with these proposals. IIQRs protect industries not the existing domestic firms in an industry. Unfortunately, it is existing companies which finance pressure group lobbies and political parties, and often actually believe that the Japanese win by cheating and not by exercise of the solid Victorian virtues of thrift, diligence, long-term planning and managerial efficiency.

Reform needs politicians with the Lutheran toughness to resist the lobbies.

Orthodox beliefs are powerful. Free trade orthodoxy rests partly on ideals, partly on theory. As for ideals, accelerating investment through IIQRs shows an even stronger spirit of internationalism. As for trade theory, the bankruptcy of the comparative advantage paradigm with its assumptions of competitive markets and "undistorted" prices is apparent even to some of its high priests. A world in which one country's export drive can destroy another country's industry in the space of half a decade is no longer the world in which Ricardo developed his theory of comparative advantage.

The author is a professor of political science at Massachusetts Institute of Technology and a member of the Centre for Economic Performance at the London School of Economics.

Edward Mortimer

A chance to fix Europe

Britain must use its presidency of the EC to champion a more democratic union

FOREIGN AFFAIRS

All right, I admit it. My advice three weeks ago to Irish voters was frivolous and utopian. I urged them to follow the Danish example and vote 'no', in the hope that this would force European governments to come up with a clearer and more rational proposal for European union than the one contained in the Maastricht treaty. Surprisingly but sensibly, knowing well on which side their bread is butter-mountained, the Irish endorsed the treaty.

Mind you, I really do find the treaty unreadable and, in parts, incomprehensible – though I am grateful to British Management Data Foundation* for supplying a relatively comprehensible edition of it, giving a consolidated text of the Treaty of Rome as Maastricht proposes to amend it, and using bold type with a different lay-out to identify the new or amended articles.

I should still like to see a clearly drafted European constitution – call it federal, if you like – defining the powers of the union and expressly reserving everything else to the member states.

Mr Christopher Kane, a lawyer in Seattle, has kindly written to the Financial Times offering a model clause to that effect, namely the 10th Amendment to the US Constitution which says: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

That is certainly a lot clearer than the now famous Article 3b of Maastricht, which says that "in areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the member states and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community".

My union would have power to conduct a common external policy, to defend and police its external frontiers, and to ensure free circulation of goods, persons and capital throughout its territory. (Does that entail a single currency? I remain agnostic on that point.)

For those purposes a central union executive would be needed, which should be accountable to an assembly elected by the people of the union as a whole. The assembly could also be the legislative body. The areas of union competence should only be extended with the consent of all member states.

Such is my idea of European Union. But I know that the chances of such a union being constructed on the ruins of the Maastricht Treaty are nil. Although many English people think of the EC as a tiresomely Cartesian phenomenon, full of abstract logic and inapplicable principles, in reality it is and always has been something much more Burkean in nature. It is misshapen because it is organic, forever adapting itself to circumstances through a process of illogical but creative compromise. That is not likely to change to satisfy me or any other doctrinaire federalist.

The point is eloquently explained by someone I used to regard as a much more doctrinaire federalist than myself: Mr Peter Ludlow, director of Brussels's own think-tank, the Centre for European Policy Studies. In a lecture** delivered in Stockholm in May, Mr Ludlow mounted a resolute defence of the Maastricht treaty, based on a close reading of the text.

He starts from the observation that the EC is neither a purely inter-governmental organisation nor a classic federal system, but an original construct combining elements of the two. Therefore, in his view, the argument between federalists and inter-governmentalists is ultimately sterile.

In his eyes the Maastricht "three-pillar" structure, which sets both "foreign and security policy" and "justice and home affairs" outside the purview of the EC proper, is redeemed by the overall provision that "the union shall be served by a single institutional framework". It is also saved by the specific provisions which give the Council (of ministers) the main authority in these matters, as in the EC itself, while associating the Commission with the work to be carried out.

The treaty reinforces the authority of a body which is not collectively accountable

Mr Ludlow points out that the Council, whose role "at the heart of the Community's unique institutional structure" the treaty "reaffirms and reinforces", is more than a purely inter-governmental institution, even though made up of ministers of the member states.

In recent years, he says, its decisions "have not only been much more than the lowest common denominator of agreement among those present, but have to an uncomfortable degree bound those who were least happy about them".

In saying that, he puts his finger on precisely the thing which makes so many people unhappy about Maastricht: the treaty reinforces the authority of a body which, even though its individual members are accountable to national parliaments, is not collectively accountable to any representative assembly. Does Maastricht not thereby exacerbate the EC's notorious "democratic deficit?"

Major and Hurd: must explain the nature of the union

Mr Ludlow concedes that this argument "must be taken seriously". He points out that the European Parliament already has a significant role in EC legislation, and that this role is further enlarged by the new treaty. Politically, he says, the parliament has only itself to blame for its failure to act as an "effective watchdog".

This could be remedied if political parties did more to co-ordinate the work of the European Parliament with that of national parliaments. But he adds that the democratically elected governments of member states must "constitute an indispensable brake on an over-mighty centre", and claims that the treaty adds checks on the growth of irresponsible power – though these, on inspection, do not amount to much.

In an appendix written after the Danish referendum, Mr Ludlow blames the result partly on the Danish political establishment for failing "to explain to its voters at large what the European Community has always been about".

He also partly blames the Commission, which "perhaps involuntarily, conveyed the impression that Maastricht was only the beginning of something that was to be much worse as the future unfolded". Mr Ludlow urges the other 11 governments to "engage in a systematic effort to explain and justify the character and logic of the EC's unique political system, as it has developed over 40 years and as it is confirmed and consolidated in the Maastricht treaty".

Such a campaign is indeed necessary, and the UK government should take the lead – both because it occupies the presidency at this crucial moment, and because it involves explaining that the union is something much more British and less continental in its nature than it looks at first sight. That may not satisfy utopians, but it may be more acceptable to seasoned practitioners on the back-benches in the House of Commons.

Whether it can be made acceptable, after all, to Danish voters we shall see. If not, some further piece of untidy pragmatism can no doubt be devised to govern their future relationship with the union they have rejected.

* *Highfield, Longridge, Sheepscombe, Stroud GL6 7QU. Price £12.50*

** *The Treaty of Maastricht and the Future of Europe (CEPS Working Document No. 68)*

OBSERVER

Interference on the line

■ When it comes to corporate shenanigans, it is hard to beat the comings and goings at the top of Ireland's state-owned telephone system – Telecom Eireann. Yesterday, Professor John Scanlan became the third chairman in the utility's eight year roller-coaster history. Given that his predecessors fell out with the government he would be wise to keep his hand in teaching electronics.

The relationship between the Irish government and its telephone company has always been a prickly one. There is an apocryphal tale of how one junior minister of posts and telecommunications used to travel around the country with a car full of telephones. When a constituent complained that he had waited for months for a phone, the minister would solve that little problem by going round to the boot of his car.

Like British Telecom, Telecom Eireann's service is much better than it was and waiting lists have been dramatically reduced. But its relations with the government have not improved. Hence the revolving door at the top of the organisation. The government would dearly love to privatise the company but until it stops interfering it's going to have a job persuading foreign investors to take it off its hands.

Gut feeling

■ Nicholas Soames, the new junior agriculture minister, is fast becoming the most engaging character on the front bench. Making his first appearance at the Treasury despatch box, he likened winding up a debate to the "parliamentary equivalent of the Grand National".

As the subject was bovine spongiform encephalopathy (mad cow disease), Soames made certain he did not fall at the first fence by having a preliminary canter around the pronunciation in his office.

And how long does it take for the BSE agent to pass from the gut to the brain? The amply proportioned Soames assured his listeners that "in my case the transfer would take a long time".

Sleep easy

■ New UK environmental regulations require industry to use BATNEEC to clean up its act. This stands for best available technology not entailing excessive cost. Industry has responded with CATNIP – cheapest available technology not involving prosecution.

On reflection

■ Come back Wynne Godley, all is forgiven. Yesterday marked the start of the rehabilitation of the left-leaning Cambridge don best known for his gloomy views about the UK economy and the need for import controls.

A government-funded study into the biggest forecasting errors by government and private-sector economists in recent years says that "more attention should have been paid" to the warnings of Godley, who predicted a long and severe recession before virtually anyone else.

Given the exclusion of the 65-year-old Godley from the inner circles of policymaking during the 1980s – he lost his government funding in 1982 largely because of his non-Thatcherite views – the irony is delicious.

It was not lost on Godley yesterday on sabbatical from Cambridge at the Jerome Levy Institute in New York. "Over the past few years, I have had a strong sense of not existing. It's been like walking past a mirror and seeing nothing," says Godley. One could almost hear the maverick making merry with his oboe at the welcome news.

"If the Goebbels diaries are authentic there's probably not a word of truth in them"

Title brewing

■ One cannot question the loyalty of George Younger, the former defence secretary. Who else would prefer to adopt the title of an obsolete Scottish airport rather than some pretty glen?

Lord Younger of Prestwick, as he will soon be known, has always been uncommonly faithful to the under-utilised airport in his former constituency of Ayr. In the 18 years he was an MP, he led the lobby which persuaded the government to keep Prestwick's monopoly on transatlantic flights to and from Scotland.

Because the airport was highly inconvenient for much of the Scottish population, its traffic dwindled to the point when on some winter days there were no passenger flights at all; the development of air services from Scotland was retarded by a decade, often to the benefit of airports like Manchester.

However, Younger lost his battle in 1990 when the government finally allowed neighbouring Glasgow to break Prestwick's transatlantic monopoly.

As a result BAA sold Prestwick earlier this year to a consortium, backed by the local authority, with Younger a prime mover.

Prestwick is now developing its freight business and hoping for the day when Glasgow becomes too congested. However, if Prestwick really proves a white elephant, Younger won't necessarily be tagged for life. He should eventually succeed to his father's title Viscount Younger of Leckie, the name of the family home, a long, long way from Prestwick.

Employment tip

■ Did you know that Bengt Dennis, governor of the Swedish Riksbank – the oldest central bank in the world – is one of the most lowly paid members of his fraternity?

He earns a mere 55,000 crowns a month (£5,230) from his employment in Stockholm. But he manages to double his annual earnings as a result of plentiful emoluments from the Bank for International Settlements, of which he is currently president – a mandate which runs out at the end of next year.

Point of order

■ "Daddy, what is the tallest building in London now that Canary Wharf has collapsed?"

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

In defence of a total nonsense?

From N T Harvey-Williams.

Sir, I have been bemused by some of the highest intellects in the land hotly defending the wearing of wigs as being somehow beneficial to the proper dispensation of justice in Britain. Vaclav Havel, when he was being persecuted in Czechoslovakia for challenging another rigid form of ideology, once said: "I love logically constructed arguments which defend total nonsense."

Those of us with lesser minds but perhaps a better understanding of the real world outside the cloistered attitudes of the legal profession, have to ask them: beneath your wigs, are you wearing any clothes?

N T Harvey-Williams,
*8 Wyndham Close,
Oadby,
Leicester LE2 4HR*

Disclosing who they are and what they earn

From Mr Ernest G Gobert.

Sir, Lex ("Leave it to the board", July 6) says that if shareholders do not trust the directors they should not buy their shares.

Very true. In the case of the latest flotations the names of the directors are not disclosed in their invitation to subscribe.

One cannot trust someone whose name, let alone whose antecedents, one does not know.

Ernest G Gobert,
*3 Beechwood Drive,
Marlow,
Bucks SL7 2DH*

From Mr James Cane.

Sir, Your editorial, "Directors' pay" (July 6), is right in seeking greater disclosure of board remuneration information, including share option benefits.

I hope that the National Association of Pension Funds proposals for share option schemes ("Shareholder group calls for changes to stock option plans", July 6) support your recommendations for volunteering further details on share option schemes, but do not impose a view as to the "correct" criteria.

It should be for companies, and their remuneration committees, to decide the appropriate structure of the scheme, and to disclose it. It should be for the "markets" to make their judgments on that structure, and to act accordingly.

More disclosure – yes; more regulation – no.

James Cane,
*Greenly's,
39 Thames Street,
Windsor,
Berks SL4 1PR*

Angels in the garden

From Mr Adrian P Hewitt.

The "appropriately named" Englischer Garten ("Munich finds G7 summit a heady brew", July 6) gets its appropriateness for Frau Kohl and the other consorts of the leaders by being *angelic* rather than English.

Moreover, the Engels in question are real angels, not friends of Marx called Friedrich. This is Bavaria, after all.

Adrian P Hewitt,
*deputy director,
Overseas Development Institute,
Regent's College,
Inner Circle,
Regent's Park,
London NW1 4NS*

Surveys of business opinion seen as lacking credibility

From Mr Roger Lyons.

Sir, So the Institute of Directors has joined those whistling to keep their courage up about the continuing recession ("Confidence firm, says IoD", July 6), but how much can we credit these surveys of business opinion? We all remember the March Confederation of British Industry survey which declared on the eve of the general election that recovery was round the corner.

Indeed, a story on the same page as the IoD story undermines its credibility. Here, you report the Ernst & Young Item forecasting group envisaging "a 0.6 per cent decline in output this year after a 2.4 per cent fall last year". A week ago Dun & Bradstreet reported that company failures in the first six months of this year rose to 30,722, 33 per cent up on the same period in 1991. Are any of the managers of these companies questioned about their "confidence"?

Many members of this union who have lost their jobs this year treat these management surveys with derision, and rightly so. They appear to be more concerned with giving aid and comfort to a failed government rather than reveal the truth about the economy.

If one can give any credence to the IoD survey, then the fact that "confidence" has continued to fall among manufacturing and distribution companies should ring the alarm bells. More jobs are going to be lost in this vital sector in the months to come – and that is going to make it even more difficult for Britain to emerge from recession through a manufacturing industry sector recovery.

Roger Lyons,
*general secretary,
MSF,
Park House,
64-66 Wandsworth Common,
North Side,
London SW18 2SH*

Real interest rates and the exchange rate connection

From Mr John Calverley.

Sir, Samuel Brittan's suggestion (Economic Viewpoint, July 2) that world real interest rates remain stuck at about 4 per cent judging by the yield on UK indexed bonds is incorrect because it ignores the effect of exchange rates. The experience of floating exchange rates in the last 20 years supports the theory that world real interest rates are not in fact equalised by the markets, but can be higher (or lower) in one country if the exchange rate is perceived to be overvalued (or undervalued). In effect, international investors demand compensation for the exchange rate's expected movement. Thus we can only deduce the level of "world" real interest rates from the yield on UK indexed gilts by guessing at how much the markets believe the pound is overvalued.

The test of this theory will be if the US Treasury begins to offer index-linked stock as is reportedly under consideration. If the US dollar is currently around 10 per cent undervalued against the pound, then US index-linked stock should yield around 3 per cent, allowing the international investor to expect the same return on US Treasuries as on gilts over a 10-year period given the likely exchange rate correction. (The indexation element will cover any exchange rate moves due to any future differential between US and UK inflation.)

This would imply that "world" real interest rates are somewhere between 1 per cent and 4 per cent. My guess is that the markets may believe the pound to be more than 10 per cent overvalued, which points to world real interest rates being around 3 per cent. This would support Samuel Brittan's view, and mine, that the world is not suffering any shortage of capital at present.

John Calverley,
*deputy chief economist,
global economics unit,
American Express Bank,
60 Buckingham Palace Road,
London SW1W 0RU*

From Mr G R Steele.

Sir, Re Samuel Brittan (July 2), it is not that worldwide public sector deficits provide "some cushion" to the recessionary impact of high savings. Rather, it is those deficits which absorb high savings to keep interest rates too high for an investment-led recovery to be possible.

G R Steele,
*lecturer in economics,
The Management School,
Lancaster University*

FINANCIAL TIMES
Wednesday July 8 1992

Negotiations break down over cross-Pacific semiconductor agreement

Sanyo files lawsuits against TI

By Steven Butler in Tokyo

SANYO ELECTRIC, the Japanese electronics company, has filed anti-trust and breach of contract suits in the US against Texas Instruments, the US semiconductor maker, in an increasingly bitter dispute which has followed the breakdown of year-long negotiations over a semiconductor cross licence agreement.

Sanyo also launched a vituperative attack against TI, accusing it of negotiating in bad faith and attempting to "coerce" Sanyo into "paying for a patent that we neither want nor need".

The dispute is the most bitter yet in a series of cross-Pacific patent disagreements involving hundreds of millions of dollars of royalty payments. TI and other US companies have been increasingly aggressive in seeking to enforce patent rights in the courts.

Mr Hiroshi Yoshie, Sanyo managing director, said: "We are extremely disappointed with TI's behaviour in this matter, not only with regard to their attempt to use their asserted market leverage ... to coerce our company ... but in the total lack of integrity which they demonstrated in our negotiations."

TI had no immediate comment on the substance of Sanyo's allegations. However, Mr Norman Neureiter, vice president of TI Asia, said in Tokyo: "We question whether Sanyo's cause is really being well-served by such intemperate and one might even say, nasty, language."

TI filed a patent infringement suit against Sanyo on June 26, and sought a declaratory judgment from the court that the conduct of the company's negotiations with Sanyo did not constitute a misuse of patents or an anti-trust violation.

Sanyo, for its part, said in a complaint filed at the US district court in California that it wished to sign an agreement excluding TI's Kilby patent – named after the inventor of the semiconductor, Mr Jack Kilby – which covered basic semiconductor technology in Japan. However, according to Sanyo, TI would agree to this only by charging an "exorbitant multi-million dollar penalty payment for the 'privilege' of excluding the Kilby ... patent". Sanyo says this constitutes an abuse of monopoly power which violates US antitrust law. It is seeking treble damages under US law and injunctive relief.

TI believes the broadly-worded Kilby patent applies to all semiconductor devices produced in Japan. Sanyo, however, says the Kilby patent "covers an outdated technology that is not valuable to Sanyo because it is not a practical, competitively viable design for products that will compete in today's semiconductor market".

Sanyo warned TI in April that it would take legal action but on June 24 said it would hold back pending a further meeting with the US company.

According to Sanyo, TI agreed to meet on July 16, but then filed suit against Sanyo in a Texas court on June 26. "TI deliberately deceived Sanyo in order to lure Sanyo into not seeking judicial relief from TI's anti-trust violations and related conduct, in an effort to obtain some tactical litigation or negotiation advantage," Sanyo said.

Sanyo says this violated contractual provisions in the former cross-licence agreement requiring TI to negotiate in good faith.

TI and Fujitsu, the Japanese computer company, are currently seeking a determination by the Japanese court as to whether TI's Kilby patent applies to products made by Fujitsu. The two companies nonetheless reached agreement on other patent licences.

TI has reached semiconductor cross-licence agreements, covering the Kilby patent, with 14 other Japanese companies.

Withholding tax agreement advances German reforms

By Christopher Parkes in Bonn

GERMANY'S taxation reform programme has advanced further with agreement on a scheme for a 30 per cent withholding tax on investment income, to take effect at the start of next year.

Interbank dealings and investors classed as non-residents for tax purposes will be exempt from the new charges.

The new levy, 5 percentage points higher than that originally proposed by the government last November, will be deducted at source from all investment earnings of more than DM6,000 ($3,950) a year for individuals and DM12,000 for couples. Earnings in excess of the tax-free allowances from bonds and securities traded over the counter will be taxed at 35 per cent.

The new scheme is the successor to an ill-fated 10 per cent flat rate levy, imposed in 1987 and promptly withdrawn when an estimated DM80bn poured out of the country.

The deal was worked out on Monday night by a parliamentary arbitration committee which was asked to mediate when the original proposal was rejected by the opposition-dominated Bundesrat, the upper house of parliament.

The BVR co-operative savings banks association welcomed the deal, claiming that the allowances would mean that 80 per cent of savers would pay no tax on their interest income.

The current system, which is dependent on voluntary declaration, had to be changed when it was declared unconstitutional by the courts last June.

At present all investment income above DM600 for individuals and DM1,200 for couples is notionally subject to a 25 per cent charge. However, avoidance is widespread. The agreement represents the results of a year's efforts to meet the requirements of the constitutional court, minimise the impact on small savers, and at the same time prevent capital flight.

The compromise also marks another step in Bonn's efforts to shuffle the components of the tax system to allow it to divert more funds from the west into the collapsed east German economy.

The breakthrough came in February when the government manoeuvred through an increase in value added tax from 14 to 15 per cent, effective next January 1, together with higher thresholds for company property tax and trade profits tax.

The VAT deal was expected to yield an extra DM33bn for the east over the next three years. Monday night's compromise will produce an estimated DM12bn a year, a sum which has also been committed to the five new federal states for 1993 and 1994.

Mr Theo Waigel, finance minister, said banking secrecy rules would remain intact because the Social Democrat opposition had given up its earlier demands that investment holdings should be subject to spot checks to prevent cheating.

KIO's main Spanish unit 'in danger of default'

By Tom Burns and Peter Bruce in Madrid and Tracy Corrigan in London

THE KUWAIT Investment Office's main Spanish holding company, Torras, is in danger of defaulting on a £100m ($192m) convertible bond, should Torras' large chemicals affiliate, Ercros, press ahead with its decision last week to file for protection from its creditors.

The £100m Eurobond, issued in 1988 by Phoenix International, is guaranteed by Torras, which owns 40 per cent of Ercros.

According to the offer document that accompanied the bond issue in 1988, Ercros is a "principal associate" and the offer stipulates that any such company which is unable to pay its debts or suffers the appointment of a liquidator or receiver, could trigger a default on the bond.

"If Ercros files for protection, it could well trigger an event of default," said Mr David Norris, a director of the Law Debenture Trust Corporation, the trustee of the bonds.

The trustee, however, would then have to evaluate whether the event of default was prejudicial to bondholders, according to Mr Norris, before asking for the bonds to be repaid.

It could be decided that, if Ercros files for protection, Torras itself will be in a stronger financial position as a result, which would in turn benefit the holders whose bonds are guaranteed by Torras.

Some bondholders have already contacted the trustee in order to discover the status of the bonds. The trustee is in communication with Torras, in an effort to clarify the situation.

An investment banker who was close to the Phoenix bond issue said a default on the security could have a "significant effect" on Kuwait's status as a borrower. Last year, KIO launched a $5.5bn jumbo bank loan to help rebuild Kuwait after the Gulf War.

By late last night, Ercros, which owes $2.15bn to banks and suppliers, had still not made its announced filing. Company sources said this was because paperwork had not been prepared but the Phoenix bond clause may also have complicated the procedure. Lawyers for Torras in Barcelona refused to comment on the Phoenix bond.

Other sources close to Torras suggested that the suspension would go ahead as planned in the near future.

"KIO have put themselves into a corner and they are compounding their problem," a former senior executive of Torras said. "Torras' new management had been made aware of the small print in the Phoenix offering but they did not want to listen."

Torras' 1990 accounts show that the group made a provision of $30m to cover guarantees made on the bond.

Ercros, which employs 10,500 people in chemicals, mining, fertiliser and explosives, owes banks and suppliers more than $1bn, half of which matures this year.

Pentland agrees to buy Adidas

The shoe fits: Stephen Rubin, Pentland's executive chairman

Continued from Page 1

was mooted last week, it is a very good price."

The deal is also a watershed for Mr Tapie, who was recently forced to resign after only seven weeks in the French cabinet because of his involvement in a fraud case. Mr Tapie has been struggling to repay the debts he took on to buy Adidas in a FFr1.6bn deal two years ago.

Pentland has agreed to pay DM621m in cash for BTF's 58 per cent stake in BTF GmbH and also to buy out the other minority investors, including Crédit Lyonnais, the French bank.

The vendors may also elect to take equity in place of cash, which, if fully subscribed, would result in a cash payment of DM553.8m, and the issue of 23.2m shares, about 6 per cent of Pentland's existing equity.

Mr Farrant said the purchase would have a largely neutral effect on Pentland's earnings, although it would leave the company about 60 per cent geared. He said the deal was conditional on bankers to Adidas agreeing to provide facilities in excess of its DM600m debt. Adidas recently reported a fall in net profits from DM90m to DM44m for 1991 on sales of DM3.3bn. Pentland's shares rose by 14p to 144p in London after yesterday's announcement.

French truckers accept outline accord

Continued from Page 1

long distances they have to drive. One-man subcontractors, who make up nearly 40 per cent of French haulage companies, have suffered from a sharp fall in rates since prices were freed in 1986, which has put pressure on them to drive longer and faster.

Unostra, the subcontractors' organisation, said Mr Pierre Bérégovoy, the prime minister, had promised to reintroduce fixed minimum rates for subcontractors: The group said it would call its men back to work once the government had confirmed "the installation, as soon as possible, of subcontracting rates that enable carriers to cover costs."

The FNTR said this was "only the opening of negotiations."

The other main aspects of the eight-point deal are: to review working hours, with a view to paying more for total hours worked rather than just time spent at the wheel; to consider adjusting the application of the points system to truckers; to oblige employers to find other jobs for banned drivers; to pay for driving lessons for banned truckers; and to ban bonuses likely to reward unsafe driving.

THE LEX COLUMN

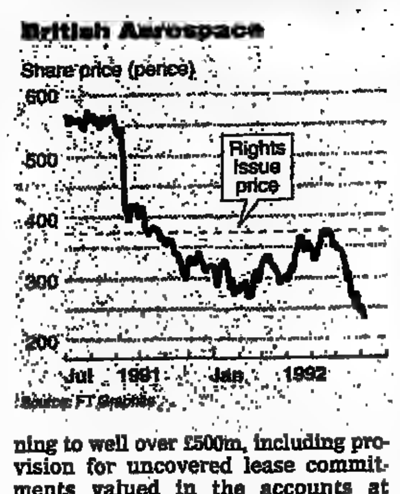
Never mind the public

Yesterday's events in the UK new issue market suggest two things: that retail interest in flotations is officially dead and that nobody minds very much. On the one hand, the retail half of Anglian Group's offering was only 6 per cent taken up by the public. On the other, Taunton Cider was placed and underwritten close to the price originally planned, suggesting that the institutions accept there is no longer any point in cutting the price to lure the public in.

It may be that the public is being perfectly rational here. The old-style flotation, which fixed the price and then knocked 10 per cent off to get it away, was grossly biased against the vendor. The new book-building method aims at a true market price. But if the stags have grasped that, there seems no point in offering half the issue to the public at all. The result is to leave the public's half with the underwriters, so that the issue is labelled a flop and suffers accordingly in the after-market. In fact, the institutions may simply be underwriting stock as a means of getting a discount on stock they want to hold anyway.

For public offerings to go out of fashion would have its ironic aspect. The book-building process was introduced to the UK by the government as a means of controlling the bribe offered to the public in privatisations. In teaching the market how to price issues correctly, the government may have dealt a blow to its own cause of wider share ownership.

FT-SE Index: 2493.7 (+24.7)



British Aerospace

At yesterday's intra-day low of 208p, British Aerospace was down 45 per cent in just six weeks. That seems overdone. Even after second thoughts pushed the shares back up to 231p yesterday afternoon, the price scarcely reflects the fundamentals.

BAe has long been vulnerable to negative speculation: witness last year's exaggerated alarm about its cash position. Now it is under attack on three fronts: worries about the European Fighter Aircraft; concern about its loss-making regional jet business; and dividend uncertainty. EFA has the highest profile but is arguably the least of these concerns. Even if the project were scrapped BAe's profits would be unaffected until 1996 or 1997.

By contrast, the regional jet business is a running sore receiving urgent attention from Mr John Cahill, BAe's new chairman. Closure would be an expensive option with costs running to well over £500m, including provision for uncovered lease commitments valued in the accounts at £348m. That would push the company into a hefty loss this year. The chances of a full disposal are remote, but Mr Cahill may yet clinch a joint venture. That would be less painful than closure, but the immediate cash impact of a shut-down would be less serious than it looks, since the leases could be unwound over a long period. A separate sale of the corporate jet business could yield over £200m.

The prospect of a further loss in 1992 raises questions about the dividend, but it is premature to regard the payout as doomed. Unlike BP's, BAe's dividend costs a mere £105m. Halving it would shave only 3 percentage points off gearing. And unlike British Steel, it can claim scope for vigorous earnings recovery once the regional jet problem is out of the way.

National Grid

Shares in the UK regional electricity companies bounced back yesterday in relief at the regulator's new price formula for National Grid. But while RPI minus 3 is indeed more benign than the regime darkly rumoured in the market last week, Offer's Professor Stephen Littlechild is hardly a soft touch. Even with minus 3, the grid will only be able to achieve real earnings growth provided it finds additional savings of 2 per cent on top of those already identified. No doubt there is a bit more up its sleeve, but it is worth remembering that half operating costs are outside its control.

The other issue is what the professor has in mind for the Recs come 1995. National Grid's new formula implies a target rate of return of around 5.8 per cent on fixed assets, which compares starkly with the Recs' current range of 8.5-9.0 per cent. The clear message is to enjoy the real dividend increases while they last.

Sterling

Sterling has yet to breach its narrow band limit against the D-Mark, but it was already below it against the Belgian Franc yesterday afternoon. It is difficult to see how the authorities can respond if the market persists. Intervention would do little in the face of disbelief that the chancellor would follow Italy's example and raise interest rates. He may thus have no choice but let sterling find its own level much closer to its wide band floor. That was what happened before the election, but the government was less reliant then on overseas funding of the PSBR. For now, the gilts market may be underpinned by the fact the hedging cost in D-Marks is virtually zero. How long that will last is another matter.

3i

Yesterday's annual report and accounts from 3i reads like the pathfinder prospectus that never was. The flotation may wisely have been postponed until next year, but by breaking down the main investments and disclosing its valuation policy for the first time 3i is clearly signalling that the roadshow has begun.

There is room to ponder the transformation from the mission-driven business of the last 40 years to the more fully commercial organisation which 3i will inevitably become. In particular, will the company's proven long-termism be compatible with the demands of ordinary shareholders? Moreover, 3i should not be allowed to get away with claiming the accounting moral high ground just because competitors are less open. The allocation of half the investment division's operating costs to an investment realisation reserve, for instance, is primarily designed to secure a better yield. As for the valuation issue, an admittedly very conservative policy is simply coming into line with less conservative market thinking.

That said, the results underline the enormous strength of 3i's portfolio and its dominant market position. When they do arrive, the shares will be well worth buying on a discount to net assets at anything over 20 per cent.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	23	73	Boulogne	S	21	70	Frankfurt	C	17	63	Majorca	F	26	79	Oporto	S	27	81	Tenerife	S	24	75
Algiers	F	26	79	Brussels	F	21	70	Geneva	C	19	66	Malaga	S	24	75	Oslo	S	24	75	Tokyo	F	27	81
Amsterdam	S	20	68	Budapest	F	23	73	Gibraltar	S	23	73	Malta	S	27	81	Paris	F	21	70	Toronto †	S	16	61
Athens	S	30	86	Buenos Aires	F	10	50	Glasgow	F	22	72	Manila	F	34	94	Prague	C	15	59	Tunis	C	26	79
Bahrain	S	37	99	Cairo		–	–	Helsinki	C	14	57	Melbourne	F	13	55	Reykjavik	C	9	48	Valencia	S	25	77
Bangkok	F	34	93	Cape Town	C	14	57	Hong Kong		–	–	Mexico City	C	27	80	Rhodes	S	31	88	Venice	C	22	72
Barcelona	S	24	75	Caracas	S	30	86	Innsbruck	C	21	70	Miami †	S	28	82	Rio de Janeiro	R	25	77	Vienna	S	22	72
Beijing	S	33	91	Casablanca †	F	23	73	Inverness	F	18	64	Milan	F	23	73	Rome	F	23	73	Warsaw	S	19	66
Beirut	S	28	82	Chicago †	F	18	64	Islamabad	F	39	102	Montreal †	C	15	59	Salzburg	C	17	63	Washington †	S	20	68
Belfast	F	18	64	Cologne	S	20	68	Istanbul	S	27	81	Moscow	C	13	55	S'Francisco †	C	16	61	Zurich	F	21	70
Belgrade	S	27	81	Copenhagen	S	24	75	Jakarta	C	33	91	Munich	C	16	61	Seoul	F	29	84				
Berlin	F	21	70	Corfu	S	31	88	Johannesburg	S	16	61	Nairobi	F	22	72	Singapore	F	32	90				
Biarritz	F	20	68	Dallas †	S	23	73	Lisbon	S	25	77	Naples	C	25	77	Stockholm	F	18	64				
Bombay	C	31	88	Dublin	F	20	68	London	C	19	66	Nassau	C	33	91	Strasbourg	C	17	63				
Bordeaux	F	23	73	Dubrovnik		–	–	Los Angeles †	F	21	70	New Delhi		–	–	Sydney	S	16	61				
				Edinburgh	F	23	73	Luxembourg	C	18	64	New York †	S	20	68	Taipei	C	30	86				
				Faro	S	25	77	Madeira	F	21	70	Nice	F	22	72	Tangier	C	23	73				
				Florence	S	23	73	Madrid	F	24	75	Nicosia	S	32	90	Tel Aviv	S	30	86				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

British Airways discusses partnership with USAir

By Paul Betts in London and Nikki Tait in New York

NEGOTIATIONS between British Airways and USAir to form a transatlantic airline partnership appear to be nearing a conclusion, airline industry officials said yesterday.

If successful, a deal would achieve BA's long-term aim of linking with a large US carrier to strengthen international competitiveness and increase penetration of the US market.

If completed, the two partners are expected to consider acquiring assets from Trans World Airlines, the bankrupt US carrier owned by Mr Carl Icahn.

Both BA and USAir declined to comment yesterday, but sources in the US suggested that the two airlines had been due to meet ahead of the July 4 holiday weekend and decide whether to proceed with negotiations.

Since then, the talks are understood to have continued. Other European airline industry sources suggested yesterday that a deal could be imminent.

Questions about the proposed link-up with USAir are expected to be raised by BA shareholders at the UK airline's annual meeting on Tuesday.

TWA confirmed last week that it was discussing an important sale of assets to USAir. But it appears that both BA and USAir are seeking to complete a deal between them before considering the purchase of TWA assets.

Analysts believe USAir is seeking a substantial capital injection from BA as part of any deal, to help reduce its $2bn debts.

BA, which reported a pre-tax profit of £285m for the year ending March 1992, has long sought to invest in an American carrier. It came close to a deal with United Airlines three years ago.

The apparent progress in the talks with USAir may have been influenced by proposed changes in US aviation policy to allow more "open skies" for foreign carriers within the US.

USAir, the sixth-largest US domestic carrier in terms of revenue passenger miles flown, recently said it had two international marketing objectives: to continue to add international service from its US hubs and to develop strong partnerships with international carriers.

The carrier has made after-tax losses of about $760m during the past two years. However, there have been management changes and attempts to cut costs.

A partnership with USAir would give BA a US feed into its international routes. One attraction of USAir is its strong domestic network, focused in the eastern US where most European travel originates. BA would also gain wider access in the US if the two airlines were to conclude an asset purchase deal with TWA.

INSIDE

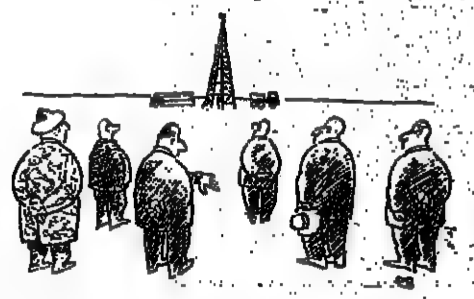
Mobil expects $80m gain from disposal

Mobil, the US oil and gas group, yesterday said it expected an $80m third-quarter gain on the sale of its polystyrene resin business to BASF of Germany. In the 1991 third quarter the group earned $365m, or 87 cents a share, on revenues of $15bn. Page 18

Safeway earnings fall

Safeway, the US supermarket group, yesterday reported a 5.5 per cent fall in second-quarter net earnings, reflecting the tough competition in US food retailing and the pressures of a sluggish economy. Net income was $33.3m on sales 2 per cent lower at $3.5bn. Page 18

Oil rich and cash poor



Turkmenistan's untapped oil and gas render it potentially richer than Qatar. Yet the 4m people of this Central Asian backwater are broke. The CIS era has ushered in curious business opportunities and difficulties for a still largely feudal country run along authoritarian lines. Page 24

Cellnet boosts Securicor

A sharp recovery from the Cellnet mobile telephone system during the half year to end of March increased pre-tax profits at Securicor Group and its sister company Security Services by more than 90 per cent. Mr Roger Wiggs, chief executive of Securicor, and Mr Christopher Shirtcliffe, group finance director (pictured above), said Cellnet's result was based on the popularity of its new call-back message system. Page 21

Howden pre-tax profits rise

Howden Group, the Glasgow-based engineer, lifted pre-tax profits from £2.99m to £18.1m ($34.7m) in the year to April 30 after a sharp reduction in exceptional provisions relating to its troubled Danish contract. Page 22

Market Statistics

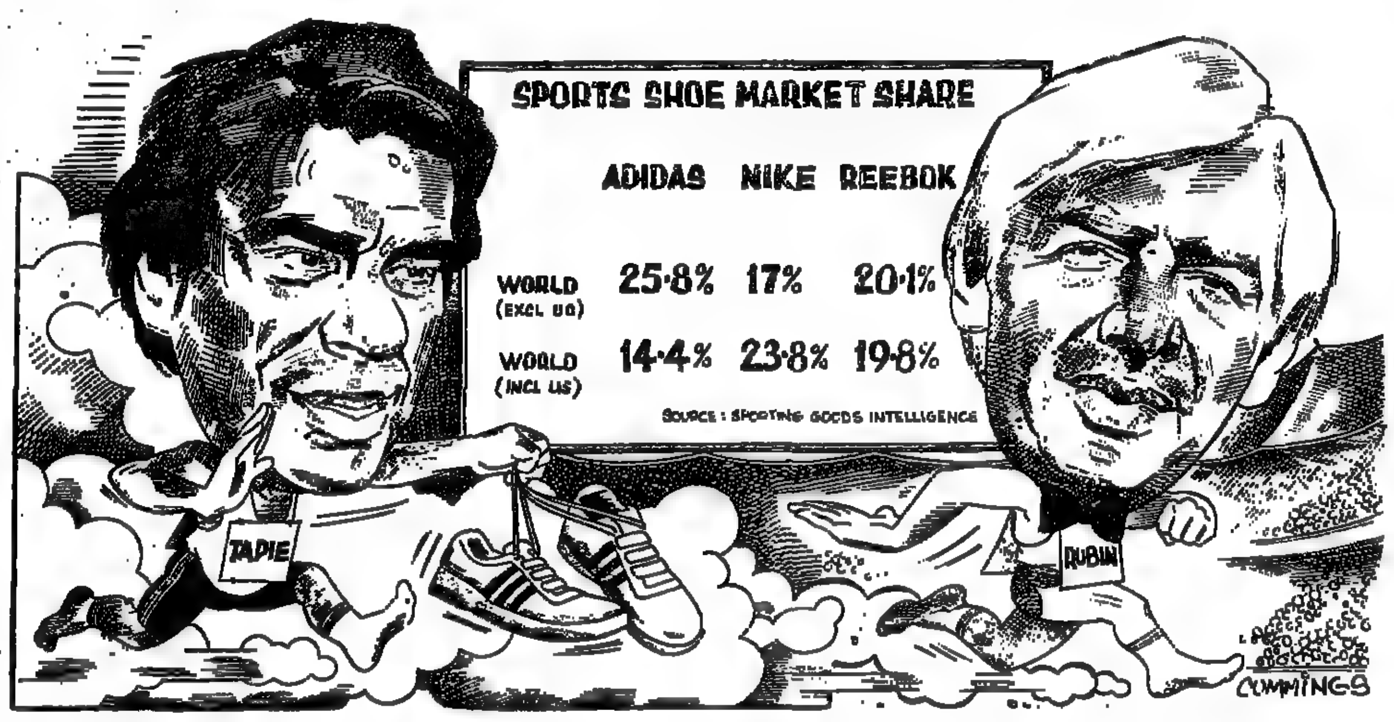
Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Hochtief Zem	920	+	15
Loewe	475	+	5
Schering	732.4	+	8.4
Falls			
Fg Kugelfischer	233.5	-	8.5
Linotype-Hell	417	-	6
Varta	357	-	4
NEW YORK ($)			
Rises			
Digital Equip.	34¼	+	1¾
Falls			
Georgia-Pacific	55	-	4⅛
Hewlett Packard	63⅝	-	1¼
Intl. Paper	65⅝	-	1¼
Louisiana Pac	41⅞	-	2
Weyerhaeuser	31⅛	-	2¼
PARIS (FFr)			
Rises			
Fonc Lyonnaise	600	+	15
Eurotunnel (Eur. M)	458	+	20
Falls			
BNP Cert Inv	346	-	7.8
Copiarex	566	-	44
[illegible]	323.1	-	11.9
Radiotechn	505	-	27
TOKYO (Yen)			
Rises			
Boon Oil & Fat	371	+	43
Sho-Kasei Bwry	560	+	40
Falls			
Daito Kogyo	825	-	50
[illegible]	1540	-	190
Lec	81	-	2
Seiyu Food Sys	1020	-	100
LONDON (Pence)			
Rises			
ElecPhguide	3348	+	130
Glaxo	676	+	27
Grantham Tele	36	+	5
Pentland	144	+	14
Securiguard	151	+	7
SEEBOARD	240	+	13
Sema	300	+	16
Tiphook	347	+	17
VSEL	413	+	35
Falls			
BM	120	-	7
Burnett Isc	31½	-	3½
Brit Aerospace	231	-	8
Colefax Fowler	43	-	5
Cooper (F)	41	-	5
Forte	179	-	5
Gresham Hse	7	-	3
HSBC Hldgs	328	-	11
Howden	84	-	6
ML Hldgs	29	-	6
P & P	27	-	5
Reed Exec	56	-	8
Shearwater	106	-	11
Taylor Woodrow	80	-	5
Vickers	135	-	6

Peggy Hollinger and Alice Rawsthorn outline Adidas' new footing

Tapie hands on baton to Pentland



MR STEPHEN Rubin, chairman of Pentland, says he has spent a lifetime trying to get out of shoes. Yesterday's announcement that his company had finally won control of Adidas means it is unlikely that he will ever achieve that ambition.

The purchase represents an opportunity to achieve Pentland's other long-held ambition of owning one of the world's best-known brand names, which also happens to be in shoes.

Pentland set it sights on Adidas last summer, when it bought a 20 per cent stake from Mr Bernard Tapie, the flamboyant French businessman who paid FFr1.6bn ($318m) for the sporting goods group in a highly leveraged deal in 1990.

Pentland also negotiated the pre-emptive rights over any bid for Adidas which have proved to be the company's ace, following weeks of speculation over a possible management buy-out.

Pentland – with roots in Mr Rubin's family business, the Liverpool Shoe Company – shot to fame with its transformation of a loss-making sports shoe manufacturer, Reebok. In only 10 years, holding a 55 per cent stake, Pentland transformed Reebok into an international group with annual turnover of $1bn (£520m).

By the late 1980s, however, it became apparent that Reebok had outgrown its majority shareholder. A small setback for Reebok's profits was able to knock a disproportionately large hole in Pentland's return.

By 1990, Pentland's stake, originally bought for only $77,500, had fallen to 31.6 per cent. That investment yielded a total profit of $777m, with the last sale of Reebok shares at $27 last year. Reebok yesterday traded at $24⅝.

With the proceeds of the Reebok investment, Pentland has built a group which owns the worldwide rights to Speedo swimwear as well as sourcing and licensing agreements for a series of sports related products. Yet it has found it difficult to match the Reebok success.

Adidas, like competitors, has found life more difficult in recent years. Mr Frank Farrant, Pentland's finance director, rejected criticism that, by buying Adidas, Pentland is returning to the problems it had with a rapidly growing Reebok.

"Pentland is much bigger now in its own right," he said. "We have had the experience of building up Reebok and we have more financial muscle."

Nevertheless, the sports shoe market of the 1990s is very different from that of the fitness-mad 1980s.

The US and Europe are the focus of fierce competition by players such as Nike and Reebok. Pentland also makes no secret of the fact that Adidas has suffered setbacks in Germany, where Nike and Reebok have squeezed its share by more than 10 points to about 40 per cent.

Mr Farrant maintains Adidas will find opportunities in eastern Europe, Asia, the Far East and even the US. Adidas's 3 per cent share in the US, compared with 28 per cent for Nike and 23 per cent for Reebok, is a strength, not a weakness, he says.

The first task will be to bring the 1 per cent net margins at Adidas nearer to the 14 per cent and 15 per cent achieved by its main competitors.

Although existing management has already begun rationalising Adidas, Mr Farrant said there was more to do. After the deal is completed, rationalisation costs would total less than DM50m ($32m).

Mr Rubin said current management will be left to carry on the business they know best. "All our successes have been where we have given management as much power as possible," he said.

Meanwhile, Mr Tapie faces the task of reconstructing his business armed with the FFr500m profit on his Adidas investment.

Although he has spent the past few months waxing and waning over whether to sell Adidas, Mr Tapie really had no choice.

The Adidas acquisition was far bigger than his existing businesses and marked a move into the mainstream for Mr Tapie, who had previously specialised in buying up bankrupt companies. BTF borrowed FFr1.6bn in short-term loans to do the deal.

The pressure of repaying these loans has already forced Mr Tapie to sell almost all his original interests.

After the Adidas sale, BTF will be left with only two companies – Testut, a weighing machine manufacturer which lost FFr8m on sales of FFr450m in 1991, and Scaime, a small industrial company, which produced profits of FFr2m on sales of FFr60m. Both companies are on the market.

Mr Elie Felous, who took over as BTF's chairman in April when Mr Tapie began a short-lived ministerial career, said that, after selling Testut and Scaime, BTF should have surplus cash of about FFr1bn. That will be used to buy new businesses, although Mr Felous said it had not yet been decided how the money would be invested, or whether Mr Tapie will return to his role as chairman.

BTF's investors will probably have to wait until the autumn to hear the answers to both questions. Mr Tapie and Mr Felous, like many other French businessmen, plan to take long summer breaks.

"July and August are months for relaxation, not for business decisions," said Mr Felous in true Gallic style. "We will leave all that until the *rentrée* after the holiday season."

Japanese institutions to receive Swiss bank licences

By Ian Rodger in Zurich

THE SWISS government is prepared to grant banking licences to up to 10 Japanese financial institutions by the end of this year.

Mr Alexis Lautenberg, head of the financial and economic division in the Swiss foreign ministry, said the government was also ready to grant a one-year extension to the 11 other Japanese-owned non-bank financial institutions in Switzerland which want to become banks but cannot yet qualify.

These decisions successfully conclude lengthy bilateral negotiations on financial issues between Japan and Switzerland.

A Swiss law requires all non-bank financial institutions to convert themselves into banks by the end of this year. The Swiss threatened to hold back banking licences unless the Japanese ministry of finance eased restrictions on the operations of Swiss banks in Japan.

In June, Japan's parliament passed a law enabling foreign banks in Japan to increase their ownership of securities subsidiaries from 50 per cent to 100 per cent.

However, the Japanese ministry of finance refused to lift its limits on Japanese individuals putting their capital in foreign banks. "We understand and trust they will take steps in the future," Mr Lautenberg said.

For legal reasons, the Japanese ministry has also been unable to lift restrictions on securities companies' participation in Japan's foreign exchange market.

Japan will now decide to which financial institutions the Swiss banking licences should be allocated.

France Télécom in talks with computing services companies

By Alan Cane in London

FRANCE TELECOM, the state-owned telecommunications company, is in talks with two of Europe's major computing services companies which could lead to it taking a stake in either or both.

Télécom has relationships with a number of small computing services companies but has yet to take a stake in a large group. It already holds a 17 per cent stake in Groupe Bull, the state-owned computer manufacturer.

Sema Group, the Anglo-French computing services company quoted in London, confirmed that it has been discussing a possible industrial partnership with Télécom in telecommunications. Sema is anxious to develop its telecommunications interests, which at present represent only 7 per cent of its £412.5m turnover.

Sema disclosed that France Télécom is also having discussions with Paribas, the French bank which holds a 39.1 per cent stake in Sema. The discussions could lead to Paribas's shareholding being transferred to a new holding company, jointly held by the bank and France Télécom, in which Paribas would be the majority shareholder. A decision is expected within a month.

Mr Michel Jalabert, a president of Cap-Gemini-Sogeti (CGS), the leading European-owned computing services group, confirmed that it was also talking to Télécom. CGS, he said, had enjoyed a close relationship with Télécom for 25 years but there was, as yet, no equity involvement. Mr Jalabert said the two sets of talks were linked, but this was fiercely denied by Sema.

CGS holds a 29 per cent stake in Sema and cannot increase it beyond 30 per cent without making a full bid under London Stock Exchange rules. A Sema spokesperson said: "We have an arms-length relationship with CGS and there is no question of round-table discussions."

Another Sema shareholder, Schneider SA, with a 10.5 per cent stake, said it wanted to reduce its investment but would not do so without the consent of the Sema board.

At one level, the talks are being seen as a minor adjustment of shareholdings, rather than a major reshuffle within the European computing services industry. Telecommunications companies worldwide, however, are seeking relationships with computing companies to broaden their service offerings.

Public shuns Anglian share offer

By Richard Gourley in London

ANGLIAN GROUP, the UK double glazing company, yesterday became the latest victim of the nervous stock markets when the public took up only 6 per cent of shares on offer to it in the flotation.

When the offer closed yesterday morning, private investors had subscribed for only 1.3m of the 21m shares on offer. The balance was left with underwriters and institutions, who last week had subscribed to the other 21m shares in a placement at 210p.

The failure of Anglian's retail share sale adds to the pressure on other companies that joined the race for a stock market quotation soon after the Conservatives won the UK general election in April.

Last week investors shunned new shares in The Telegraph Group, leaving more than three quarters of the public offer with underwriters. Shares in the newspaper group are expected to begin trading this morning at a discount to the 325p at which they were issued.

Next in the firing line will be MFI, the discount furniture group, whose offer closes on Friday after the offer price was discounted to 115p last week.

Shares in Wellcome, the pharmaceutical company, went on sale this week in the largest non-privatisation offer ever seen in the London market. The offer closes on July 24.

Mr Bill Hancock, Anglian's chief executive, said he was disappointed but not surprised by yesterday's low public interest. "I suppose it is the expected result in a very poor market," he said. "The company has not changed; the market has. We have achieved what we set out to do – we have repaid our borrowings and we have a listing."

As applications for Anglian's shares were being counted yesterday, Taunton Cider, the west country drinks group, was pressing ahead with its flotation.

The public is being offered 29.1m shares at 140p in an offer that values Taunton at £153m ($292m). The same number of shares were placed yesterday with a variety of institutions which also underwrote the public offer.

At that price, Taunton is valued at a pro-forma price earnings multiple of 15.1, a slight discount to Bulmer Holdings, the other UK cider company.

Lex, Page 14; Cautious response to Wellcome, Page 22

3i achieves 3.2% rise in net asset value per share

By Richard Gourlay

INVESTORS in Industry (3i), the UK's largest venture capital group, yesterday reported a small increase in net asset values in spite of the impact of the recession.

Mr Ewan Macpherson, chief executive, said the performance of 3i, which invests in about 4,000 small British companies, was linked with the economy, which was "experiencing only patchy signs of economic recovery".

However, net asset value per share – the most useful measure of the performance of investment trusts – increased 3.2 per cent to £5.38 ($10.27) in the year to March. Over the same period, the FT All Share Index fell 1.8 per cent.

There was an improvement in economic confidence between the first and the second half as measured by the size of investments. In the first six months the group invested £141m, while in the second it invested £283m.

Mr Macpherson said the trend had not been maintained this year. Last year's average monthly investment had been about £40m to £50m, while during the first three months of this financial year investment had fallen to £35m to £40m.

As a result of the recession, the pre-tax revenue surplus fell from £55.99m to £40.08m on total revenue down from £263.12m to £231.88m. The dividend is increased from 10.43p to 10.9p.

Further steps were also taken by 3i to improve the understanding of the group among investing institutions before its flotation. Last month 3i, and its chief shareholders, the main UK clearing banks, postponed the group's flotation because of the slowness of the economic recovery and the condition of the London stock market.

"People know what 3i does," said Mr Macpherson. "What is not known is the quality of 3i as an investment."

As part of this campaign, 3i has disclosed a changed valuation policy for the investments in its portfolios after a review showed it was consistently realising more on the disposals than the book values of its investments. Two changes in accounting policy led to an increase in net asset values of £32m. Total net assets rose to £1.27bn (£1.22bn).

New accounts, Page 24

Growth rate slows for Oce-van der Grinten

By Ronald van de Krol in Amsterdam

OCE-VAN der Grinten, the Dutch maker of photocopiers, design engineering plotters and office systems, said second-quarter net profit rose by 6 per cent to Fl 30.1m ($17.7m) on sales up 9 per cent at Fl 696.1m.

The rate of growth is slower than the first quarter, when both net profit and sales posted gains of 11 per cent. Overall, net profit in the first half rose by 8 per cent to Fl 51.2m, while turnover increased by 10 per cent to Fl 1.35bn. More than half of the rate of increase in sales was due to the acquisition in 1991 of Bruning, a US maker of design engineering equipment.

Operating profit in the first six months to May 31 fell by 11 per cent to Fl 74.6m. However, income from leasing office equipment nearly doubled, surging to Fl 33.8m from Fl 19.7m. If leases are included, overall operating profit rose by 4 per cent to Fl 108m, or at about half the rate of net profit.

Financing charges were 12 per cent higher at Fl 38.8m, but taxes were substantially lower, falling by 15 per cent to Fl 18.6m. The company's fiscal year ends on November 30.

Millicom plans $70m private placing

By Michiyo Nakamoto

MILLICOM International Cellular (MIC), a cellular phone operator based in Luxembourg, is launching a private placement in the UK and US prior to listing on the Luxembourg stock exchange.

The company aims to raise $70m through the placement which is expected to increase shareholders' equity to $165m from about $50m.

The funds will go mainly towards strengthening its capital base. It is eyeing a number of important licences which are expected to be granted over the next few years.

MIC is a joint venture formed in 1990 between Kinnevik, a Swedish industrial holding company with interests in telecommunications, broadcasting and timber, and Millicom of the US, a New York-based telecommunications group which was a minority shareholder in Vodafone before being bought out by Racal. Kinnevik owns 48 per cent and Millicom has a 50 per cent holding while the management control the rest.

The placing, at between $9 and $11 per share, will be for 14 per cent of the company's shares, or about 7m shares, reducing the holdings of Kinnevik to just under 43 per cent and of Millicom to approximately 41 per cent, with the remainder to be retained by the management.

Bols doubles stake in Williams & Humbert

By Ronald van de Krol

LUCAS Bols, the Dutch liqueur and wine group, said yesterday that it has doubled its stake in Williams & Humbert, the producer of Dry Sack sherry, to 90 per cent.

It purchased an additional 45 per cent stake in the company for an undisclosed sum from Antonio Barbadillo SA of Spain, from which the Dutch company acquired its initial shareholding in 1991.

Cementos Mexicanos details bid for Spanish cement maker

By Peter Bruce in Madrid, Damian Fraser in Mexico City and Karen Fossli in Oslo

CEMENTOS Mexicanos yesterday released details of its agreed bid for Valenciana de Cementos, Spain's largest cement producer. The company is paying $1.25bn for a 75.1 per cent stake after acquiring a 24.1 of Valenciana's treasury stock for $420m on Monday.

Valenciana, controlled by the Serratosa family, was paid Pta14,850 a share for its treasury stock and Cemex is to make its bid for the rest of the company at Pta15,075 a share.

The Spanish company, which has about 15 per cent of the Spanish market, reported a turnover of Pta63.7bn ($665m) last year, to make net consolidated profits of Pta10.2bn.

Aker, the diversified Norwegian industrial group, will receive NKr1.3bn ($219m) in cash through the takeover, netting it a NKr300m profit. This arises through the disposal of the 13 per cent stake acquired during a series of deals aimed at strengthening its international presence in the cement business. It began accumulating the holding in 1984.

Euroc, a Swedish cement producer, which also has a 13 per cent stake will suffer a SKr140m ($25.6m) loss, having acquired its stake in 1990 at a price considerably above that paid by Aker. It will also incur holding costs for the financing of the purchase also made as part of an international expansion plan.

The two companies in 1990 transferred their shareholding to Scancem, a joint venture. Last April, the companies bought back their shareholdings, yielding Aker a total profit on the Spanish investment of NKr680m.

The deal will put Cemex, the world's fourth-largest cement producer, in direct competition in Europe with its main North American rival, Holderbank of Switzerland, which controls Spain's fourth-largest producer, Hispalisa.

It will more than double the Mexican group's debt, to around $2.8bn, giving it a debt equity ratio of around 100 per cent. US analysts were concerned about the effects the bid might have on Cemex. Unlike Mexico's growing cement market, consumption in Spain is slowing rapidly as the economy cools and construction activity slows.

Cemex, for its part, has felt particularly vulnerable in the face of expansion planned by Apasco, its main competitor in Mexico.

Apasco, controlled by Holderbank, has just 17 per cent of the Mexican market but has launched a four-year $260m programme to increase production from 5.4m tonnes last year to 7.15m tonnes in 1994.

In the face of this threat, Cemex decided in 1988 to concentrate on its core cement business and to sell off peripheral concerns.

THE pace of takeover activity in Europe's troubled cement sector shows little sign of slackening as producers struggle against falling sales and accusations that they have been involved in illegal market-sharing agreements.

Yesterday's agreed offer by Cementos Mexicanos to buy Spain's largest cement producer, Valenciana de Cementos, for up to $1.7bn, represents the biggest takeover in Spain and the first significant purchase by a North American cement producer in Europe after a decade of heavy cement investments in the opposite direction.

Spain is the second largest cement market in Europe, and the takeover bid by Cemex is a powerful challenge to European dominance of the industry on both sides of the Atlantic. It places Cemex in direct competition with the giants of the European Industry, Holderbank, Italcementi and Lafarge Coppee, which have all made big acquisitions in Spain in the past four years.

But Cemex is entering a period of turmoil in the European cement industry. The European Community has written to 75 European cement manufacturers and their subsidiaries accusing them of breaching its competition laws.

Investigations began three years ago after officials became concerned at the low level of cement exported between neighbouring European countries, particularly where works were situated close to borders.

This has not prevented some of Europe's biggest building materials companies from buying substantial interests in cement industries in neighbouring countries.

Cemex prepares to mix it with the best in Europe

By Andrew Taylor and Peter Bruce

Acquisitions and strategic stake-building are increasing. A new development has been the recent arrival of Italian companies on the takeover trail.

At the end of April, Italcementi, Italy's biggest cement company, paid FFr6bn ($1.07bn) for a controlling interest in Ciments Français, France's second-largest cement producer.

A month earlier, Calcestruzzi, the Italian maker of ready-mixed concrete which is a subsidiary of the Ferruzzi group, in a joint venture with the National Bank of Greece took control of Heracles, one of the two biggest cement makers in Greece.

It is unclear whether the recent purchases by Italcementi and Calcestruzzi will prompt further cross-border moves by Italian cement and concrete companies. Conversely, it could draw the attention of other manufacturers to Italy, which remains a highly fragmented market and boasts the world's second highest per capita consumption of cement behind South Korea.

The driving force behind many cross-border acquisitions has been the desire of manufacturers to reduce their vulnerability to sharp falls in domestic construction output. Holderbank of Switzerland, Lafarge Coppee of France and Blue Circle of the UK, for example, bought heavily in North America in the 1980s.

European purchases, in some cases, may have been also dictated by a desire to gain control of previously state subsidised companies in eastern and southern Europe which could undercut local prices by exporting surplus capacity.

Mr Laurence Amboldt, construction analyst with Carr Kitcat & Aitken, part of the Suez group, says: "As the major groups look to spread their activities over a number of European regions in order to reduce the impact of local construction cycles, works with direct access to waterborne transport will be seen as particularly valuable as these provide economic transport of cement to various parts of Europe."

The result of all this activity has been to reduce the number of independent cement companies and to concentrate power in the hands of about eight large European cement groups.

Italcementi, including its controlling interest in Ciments Français, has overtaken Holderbank as the biggest seller of cement in Europe. Holderbank, however, is larger in the US and remains the world's biggest cement group.

Cement prices, however, have remained surprisingly stable despite the recession in the construction industry, affecting many parts of Europe.

This has led to accusations that relationships between the large cement manufacturers has become too cosy.

Critics of the industry contrast the stability of cement prices markets with the very sharp price falls which have occured for other basic building materials.

Companies, meanwhile, have complained to the Commission that Turkish, Romanian and Tunisian companies have been dumping cut-price cement in Spain, damaging the local market. Cement prices along the Mediterranean coast of Spain fell by 15 to 20 per between June and December last year.

Moves by Ciments Français to establish strategic alliances with cement manufacturers in Romania – possibly as a prelude to an acquisition – is regarded by some analysts as a defensive measure to prevent cheap Romanian cement from flowing into other European markets.

Spain, Europe's fastest growing construction market during the 1980s, has been a very attractive market for European cement manufacturers both for its size and the availability of local companies which traditionally have been family controlled. Most of the leaders have Spanish subsidiaries.

Ciments Français last month offered $44m to acquire the outstanding 22 per cent it does not own of Cementos Rezola the biggest cement producer in the Basque region of Spain. Unifund, a relatively obscure Swiss-based holding company with cement interests in Asia and South America, has just taken out an option worth more than $700m to buy Sanson, Spain second-largest producer, from the Banesto banking group.

ESTIMATED EUROPEAN CEMENT SALES IN 1992 (excluding associate companies)

Company	Tonnes (m)	Works controlled in
Italcementi/Ciment F.	27.0	Italy, France, Spain, Belgium, Czechoslovakia, Greece
Holderbank	15.7	Switzerland, Germany, Belgium, France, Spain, Hungary, Czechoslovakia
Lafarge Coppée	13.5	France, Germany, Spain, Czechoslovakia.
Blue Circle	8.3	Britain, Denmark
CBR	8.2	Belgium, Netherlands, Czechoslovakia
Dyckerhoff	7.3	Germany, Spain
Heidelberger	7.1	Germany, Czechoslovakia
Euroc/Aker	6.3	Sweden, Norway, Britain

Source: Carr Kitcat & Aitken

Mobil to book $80m gain from sale to BASF

By Karen Zagor in New York

MOBIL, the US oil and gas group, yesterday said it would record an $80m third-quarter gain on the sale of its polystyrene resin business to BASF of Germany.

In the 1991 third quarter the group earned $365m, or 87 cents a share, on revenues of $15bn.

Mobil also said it had further cut its capital appropriations budget for the year, to $4bn from $4.8bn, in response to sluggish economic growth and depressed margins in its downstream operations and chemicals business.

At the end of last year, Mobil said its 1992 appropriates budget would be $1.8bn, about $1bn below previous projections.

Mr Allen Murray, Mobil's chairman and chief executive, said: "At that time, I indicated that the 1992 budget included $800m which would not be appropriated this year unless business conditions improved."

The company expects the impact from lower appropriations to be seen beyond 1992, since there is a lag between a cut in capital appropriations and lower capital expenditures.

As a result, 1992 spending will be only slightly below the $5bn spent in 1991.

Great expectations: Allen Murray, Mobil chairman

Mr Murray said that Mobil's savings from a recently announced restructuring would be "greater than previously anticipated".

Salaried payroll in the US is expected to fall by about 10 per cent, or 2,000 people, by the end of 1992.

In addition, it expects to sell more than $600m of assets this year, exceeding 1991 asset sales. Between 1986 and 1990, Mobil sold nearly $7bn of assets, Mr Murray said.

On Wall Street, Mobil's share price edged $1⅛ higher to $63¾ at midday.

Man with a mission moves from Saab to Opel

Robert Taylor profiles David Herman, new chairman of General Motors' German subsidiary

MR DAVID Herman arrives at the head office of Adam Opel, the German subsidiary of General Motors, this morning with a mission to halt the profits slide by boosting productivity and cutting costs.

He takes over after two-and-a-half years as president and chief executive of Saab Automobile, GM's joint venture with Saab-Scania, where he spearheaded a turnround in its performance despite the slump in the world car market.

"The underlying problem in Germany is inflation and high costs, but changes are coming at Opel," he promises. "I hope I can be part of the transition to improved competitiveness."

Mr Herman comes to his new post as Opel's chairman and managing director with clear lessons from his Swedish experience: to encourage greater flexibility and hold down excessive wage costs.

During his spell at Saab he did not take the company back into profit but he pulled it through a difficult period. In the year before the company was formed out of Saab-Scania's car division in January 1990, it had make a SKr2.1bn ($384m) operating loss.

Mr Herman says he does not know when Saab will be in the black, but its losses are likely to be much less this year than last year's SKr1.39bn deficit.

Productivity has more than doubled. In early 1990, it took around 120 hours to build a Saab car. Now that figure is down to 58 hours. Although still far behind the Japanese 30 hours per car, it is in the mainstream of European auto production. It was achieved with plant closures and a cut of nearly one-third in the workforce. Latest sales figures suggest Saab is bucking the trend.

In Europe, it increased sales in the first six months of the year by 16 per cent to 2,500 units, with a 66 per cent surge in Italy. In the vital US market in June, Saab recorded its highest monthly figure since August 1987, despite the recession. In Sweden, the Saab 9000 has topped the sales statistics for three out of the past four months.

'The underlying problem in Germany is inflation and high costs, but changes are coming at Opel'

"I have been the catalyst for change," declares Mr Herman, but he is warm in his enthusiasm for the "tremendous adaptability" of his Swedish workforce. "When I arrived the arrows were not pointing in the right direction but now they are," he explains. Absenteeism is down from 10 to less than 5 per cent and labour turnover has declined from 25 to less than 8 per cent.

Mr Herman praises the Swedish trade unions for their positive response. "It has been a partnership," he asserts. "Our labour people have not just been rubber stamps. The workforce has been involved in all the discussions. There is a real team spirit here." Indeed, union leaders are disappointed at his departure, even though he was forced to close a new SKr1.3bn assembly plant in Malmo.

The turnaround at Saab comes from its Swedish managers and workers. Only around 10 of its personnel were drafted in from outside by GM.

The long, hard road back to profitability at Saab was made no easier by events outside the company's control. In particular, the low exchange rate of the US dollar against the overvalued Swedish krona has made it hard to recover in the US market.

The chairman is critical of past Saab management. "They were less willing to accept the burdens of responsibility for productivity problems," Mr Herman suggests.

What he believes he provided was a strong sense of leadership. Mr Herman did not bring the ways of Detroit to Sweden. He remained keen to work with the grain of the country's industrial culture. However, he also believes Saab is much more aware of the worldwide perspective.

He also believes the true test of his time at Saab will not come until the company's new models are in the showrooms in the next few years. "The product comes first before anything else," he argues.

Saab is set to sell up to 100,000 cars this year compared with 87,500 in 1991, and he can see the day when the Trollhattan plant will turn out an annual figure of 150,000. With a new paint shop on stream and an extra 500 jobs to come, he declares that GM is not going to abandon Saab. "There is no turning back," he says.

Lehndorff Canada meets creditors

By Bernard Simon in Toronto

LEHNDORFF Canada, a private group of real estate partnerships funded largely by European investors, met with about 30 creditors in Toronto yesterday to ask for concessions on its C$585m (US$470m) debt.

Lehndorff said it was seeking an "informal restructuring of its debt, assets and operations" in view of the slump in the Canadian commercial property market. "Given the persistence of current trends, it can no longer be business as usual," Mr Murray Brown, president, said.

The company said the debt was secured by properties with residual equity of close to C$1bn.

The restructuring plan is due to be finalised by September 30. It includes proposals for an injection of equity by the 5,000 investors in its limited partnerships, most of whom are German.

Lehndorff manages a portfolio of about 230 properties, mostly in southern Ontario and Alberta. Its main lenders include Bank of Montreal, Royal Bank of Canada and several foreign-owned banks.

It is the latest in a string of Canadian property developers to acknowledge financial difficulties caused by a combination of heavy debt loads, rising vacancy rates and downward pressure on rents and purchase prices.

Bramalea, a developer controlled by the Toronto branch of the Bronfman family, failed to make an interest payment due last week on a C$100m bond issue.

The company is renegotiating its C$4.8bn debt. Its share price stood at 90 cents yesterday morning, down from more than C$5 at the beginning of this year.

Saks Fifth denies report of large losses

LARGE losses at Saks Fifth Avenue over the past two years have eroded the US luxury retailer's capital bases and led it to seek more funding from the Middle East earlier this year, AP-DJ reports.

The figures, contained in a confidential Saks document, showed the company incurred net losses of $398m in the 19 months to January 31 1992.

Saks officials, in an interview, denied the company had suffered any losses or developed funding problems, but would not comment further.

Earlier this year, Saks announced that Investcorp, the Middle East-backed investment company which acquired the retailer from Britain's BAT Industries via a leveraged buy-out in 1990, was injecting another $300m of equity into the retailer.

The capital injection came amid rumours of poor operating performance and late payments to suppliers. The latter was emphatically denied, although Saks said trading was "clearly very difficult".

Safeway earnings fall 6.5% to $33.3m

By Karen Zagor

SAFEWAY, the California-based supermarket group, yesterday reported a 6.5 per cent decline in second-quarter net earnings, reflecting the tough competition in US food retailing and the pressures of a sluggish economy.

Net income in the three months to June 13 was $33.3m, or 28 cents a share, against $35.6m, or 31 cents, in the same period of 1991.

Sales slid 2 per cent in the quarter to $3.5bn, while same-store sales were 3.1 per cent below 1991 levels.

The company, which was subject to a $4.2bn leveraged buy-out in 1986, reduced its interest expense in the latest quarter to $67.5m from $84.8m a year earlier.

The improvement was attributed to a decline in short-term interest rates and the refinancing of high-interest-rate debt taken on during the 1986 buy-out.

Safeway's second quarter operating profits fell 13.7 per cent to $120.5m from $139.7m. The company blamed the weak comparison on a strong 1991 second quarter before recessionary sales trends had fully emerged in many of its markets.

For the first six months net income dropped to $28.4m, or 24 cents, compared with $62.3m, or 57 cents, the previous year. The 1992 figures, however, include a one-time charge of $27.8m, or 23 cents, related to the early retirement of debt.

Safeway said its operating results were also hurt by the low level of food price inflation.

Sales in the first half of 1992 were $6.85bn, against $6.92bn a year earlier.

● Chase Manhattan Bank, a subsidiary of Chase Manhattan Corp, said it has formed a new group within its North America corporate finance sector by combining the project finance and public utilities divisions, Reuter reports from New York.

The company said it had named Mr William Rockford to head the new group. Mr Rockford joined Chase in 1972 and has held positions covering utility companies in the US.

McDonnell Douglas to sell cheque acceptance service

By Martin Dickson in New York

McDONNELL DOUGLAS, the financially-stretched US aerospace group, is selling Telecheck Services – which provides cheque acceptance and guarantee services to retailers – to Atlanta-based First Financial Management.

McDonnell Douglas said the deal was part of its strategy of focusing on its aerospace business. Telecheck, which it acquired in 1984, is based in Denver, Colorado, and employs about 700 people.

The aerospace group did not put a price on the deal, but First Financial Management said it would be paying $159m both to buy Telecheck and Payment Services, its principal franchisee, which is not owned by McDonnell Douglas.

McDonnell Douglas has been slimming down its sizeable financial services operations, to focus on aircraft financing and commercial equipment leasing.

Last year it even considered selling off the entire financial services arm as a means of raising cash.

Georgia-Pacific warns on profits

By Martin Dickson in New York

GEORGIA-PACIFIC, the US paper group, warned yesterday its second quarter results would be "slightly better than break-even", with net income lower than the same period of 1991.

The news hit the company's shares and the paper sector in general, with Georgia-Pacific stock down $3 at $56¾ at lunchtime on the NYSE.

The company made $33m, or 38 cents a share, in the second quarter of last year on revenue of $2.981bn. The period included an after-tax gain of $29m, or 34 cents a share, on the sale of property.

The paper sector has been suffering from a cyclical downturn in profits, partly because of increased industry capacity, but analysts have been forecasting a gradual rise in net income during 1992, assuming the US economy sustains its slow upward momentum.

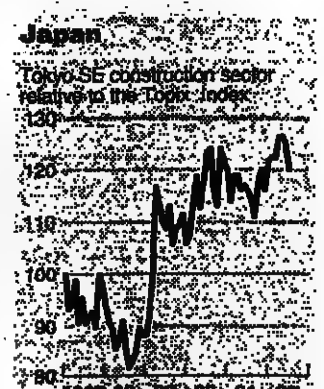
A Georgia-Pacific spokeswoman noted US prices for timber used by the building industry had dipped somewhat from the record levels seen during the first quarter of this year, while paper markets were similar to the first quarter.

During the first quarter, Georgia-Pacific reported record operating profits of $183m from its building products division, compared with pulp and paper profits of $46m.

INTERNATIONAL COMPANIES AND FINANCE

Court protection sought by Royal Construction

By Robert Thomson in Tokyo



ROYAL CONSTRUCTION, a Japanese contractor with interests in resort development, is to seek court protection.

Royal Construction said that its outstanding debts totalled Y19bn ($152m), and blamed the difficulties on an unidentified condominium operator which failed to pay debts, leaving Royal unable to honour payment deadlines and in need of protection from creditors.

Yesterday's announcement shook investor confidence in other Japanese property companies, whose share prices fell sharply on the Tokyo stock exchange.

Trading in Royal shares on the over-the-counter market was suspended yesterday afternoon and the company later said it sought protection because the damage to its credit reputation had left it unlikely to win new government contracts. The company had been a specialist in public works projects before entering the crowded resort market.

The Tokyo stock market has been haunted by fears of property company collapses, and reports of Royal's predicament led to a sharp fall in the share price of Daikyo (down Y47 to Y733), a condominium and resort builder which last month publicly denied press reports that it was close to collapse.

Share prices of leading contractors fell, including Sumitomo Construction (down Y26 to Y419) and Tobishima (down Y22 to Y423), which is already being restructured by its main bank, Fuji. Misawa Homes, another house builder, was down Y48 to Y951.

Japanese contractors have been confronted by a sharp increase in debt defaults by developers, who have been unable to find tenants for new office or apartment complexes, or who have invested wrongly in leisure projects.

Builders argue that the condominium market, in decline for the past two years, has begun to recover. The Real Estate Economic Institute said yesterday the number of unsold units in Tokyo last month was 9,983, the first month it has been below 10,000 since September 1991.

But the institute said the number of new condominiums offered for sale in June was down 34.3 per cent from the same month last year, while the average sale price of those apartments was 26.9 per cent lower than in June of last year.

China Merchants sails smoothly into uncharted waters

Simon Holberton examines the flotation of a mainland Chinese company on the Hong Kong market

THE first time that Jiang Bo encountered China Merchants was in 1949 in Shanghai. The People's Liberation Army liberated the city from Nationalist control and he was one of the officials the new communist government sent into the company's then head office to seize its assets.

Today, 67-year-old Mr Jiang, a Communist party member since 1944, is China Merchant's managing director and the man who has presided over its expansion from a shipping company to one which owns hotels, three insurance companies, two banks and hundreds of small industrial companies.

He is also the man who this week scored a first in the Hong Kong capital market by floating 25 per cent of the equity of a pure Chinese mainland company, Hai Hong Holdings, a producer of marine and industrial paints.

The offering was a success. Hai Hong sought less than HK$100m (US$12.9m), but on Monday Hong Kong investors – hungry for any stock that can be described as a "China play" – stumped up HK$31.2bn to make the issue 373 times oversubscribed.

Mr Jiang says it is possible that in the future Hai Hong may become China Merchant's main listed company on the Hong Kong exchange. It will always wish to retain at least 51 per cent of the company, he said, but did not rule out selling its interests in other assets the company now holds privately.

The strength of investor interest reinforced the growing importance of Hong Kong as a source of capital for the mainland. Equally importantly, it underlined a significant change of approach to the colony by the mainland establishment.

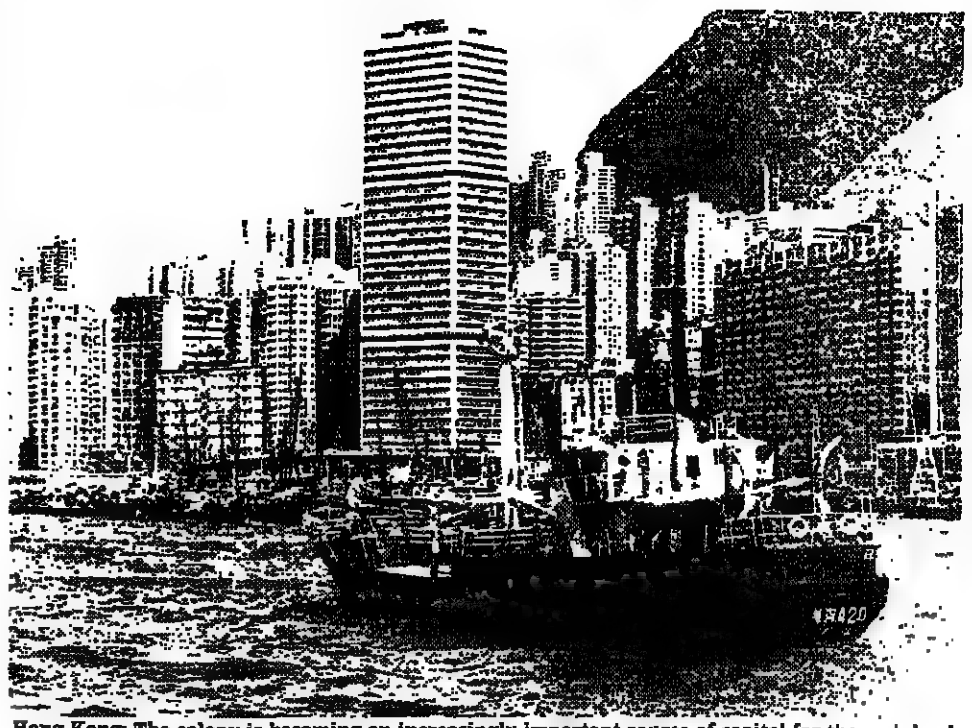
China Merchants, along with the three other "Heavenly Sisters" – China Resources, Bank of China, and China Travel Service – has been one of the more conservatively-managed mainland companies in Hong Kong, preferring to go about its business with the minimum of fuss.

But in keeping with Beijing's "open door" policy of economic reform and the impending transfer of Hong Kong's sovereignty to China in 1997, the mainland's economic presence in the colony is daily becoming more visible.

China Merchants is the mainland's oldest company in Hong Kong. It was founded in 1872 by Li Hung-Chang, a late Qing dynasty reformer, and has always had close ties with the Chinese state.

Since 1949, when the communists assumed power in China, it has been under the "direction" of the Ministry of Communications. The minister of communications is the chairman of the company's board, but China Merchants' operational headquarters is in Hong Kong and, since 1978 when Deng Xiaoping's reforms were inaugurated, its managing director has been given considerable latitude to develop the business.

Today, China Merchants employs 40,000 people in 22 wholly-owned subsidiaries and 40 Hong Kong joint ventures, and operates 368 mainly industrial companies, the bulk of which are located in a region of the Shenzhen special economic zone called Shekou. This is a port situated on the Pearl River Delta, which the company owns and operates on behalf of the Ministry of Communications.



Hong Kong: The colony is becoming an increasingly important source of capital for the mainland

According to Mr Jiang, the company has assets with a book value of HK$12bn, HK$6bn of debt, and made profits last year of HK$200m. Profits in 1991 were hit by the poor performance of its UK marine insurer, Scottish Lion Insurance.

The company also owns a shipping line, called Ming Wah, which made profits of HK$300m in 1991. Ming Wah owns and operates a fleet of ships of 3.5m dead-weight tonnes – the second largest in Hong Kong.

The core of its business remains shipping. Last year its ships carried 11 per cent of Hong Kong's trade that went by sea; they also handled 50 per cent of all marine trade by Chinese-invested companies in Hong Kong.

China Merchants also operates ship repair and maintenance facilities, and owns docks and container operations in Hong Kong, Shekou and Shenzhen. Earlier this year it paid HK$175m for a 15 per cent share of Modern Terminals Limited – one of the main owner-operators of Hong Kong's container port.

"Because we are under the Ministry of Communications our main business is shipping," says Mr Jiang. "But if we have the opportunity we are also prepared to diversify and develop other activities."

Since he became managing director in 1985, the company has bought into banking and insurance and increased the vertical integration of its shipping business by acquiring a ship repair business and warehouses.

The company has also done its bit for the economic development of other parts of the mainland by setting up businesses in the Pudong area of Shanghai and in Weihai, Shandong province, and recently acquiring an 18 sq km area of land in Zhangzhou, Fujian province, to develop as a free trade zone.

These ventures are part of the "developmental" role the big mainland companies in Hong Kong are meant to fulfil for China. In Shekou, where the company has funded the ports development and taken slices of 340-odd industrial companies which have set up business there, it is also building a 35km railway to connect the port with the industrialised part of Shenzhen to the west.

The company's move into banking and insurance fulfils both the developmental and profit-seeking brief it has been given. Scottish Lion may be a loss-maker today, but China Merchants has plans to set up a branch in Shanghai and, as a mainland-owned company, it should be well placed to take advantage of the liberalisation being planned for China's the insurance market.

Similarly in banking. It owns a controlling interest in Hong Kong's Union Bank, and has a joint venture bank on the mainland, China Merchants Bank. Both are small, but the seeds of future growth have been sown.

As Mr Jiang said: "I joined the revolution in 1944 to make China rich and strong."

Saudi British Bank up 10%

SAUDI British Bank (SBB), the joint-venture Saudi Arabian bank, yesterday announced a rise of 10 per cent in net profits for the first half to SR128.4m ($34.2m) from SR116.6m in the same period a year earlier, AP-DJ reports from Manama.

Total assets advanced 20 per cent to SR17.5bn at the end of June compared to SR14.6bn in the previous year.

The latest net profit figure was struck after SR18m of provisions against possible loan losses, unchanged from the first-half provisions in 1991.

SBB said it considers its provisioning "sufficient to absorb any unforeseen contingencies".

SBB is 40 per cent owned by the British Bank of the Middle East, itself a subsidiary of the HSBC.

Time Warner quits venture

TIME Warner, the US media group, said it was withdrawing from a consortium, led by Germany's Bertelsmann, which has applied to set up a German television channel, Reuter reports.

Time Warner said it had notified the other shareholders that it was exercising its right to withdraw from the consortium, known as the Westschiene Channel (VOX).

JAL considers cutting routes

JAPAN Airlines (JAL) is studying the possibility of eliminating some of its less-profitable international routes, a company spokesman said yesterday, AP-DJ reports.

The spokesman said two weekly flights between Tokyo and Copenhagen and one weekly flight between Tokyo and New Delhi may be cut.

Sluggish economic growth and heavy investment badly hit the airline, the country's largest. The pre-tax loss was Y6.04bn ($48.5m) for the fiscal year ending on March 31 – the first loss since the former national flag carrier went private in 1987.

Last month, the company said it was reviewing its routes, investment and personnel to counter a sharp drop in its ability to compete. Some 400 jobs will be eliminated and the management team will be restructured in an effort to return to profitability.

OBITUARY

MACRAE

On 6th July, 1992 peacefully at his home at Hemingford Abbots, Cambridgeshire. Dr Donald Kenneth Macrae Phd Bsc, ARCST. Aged 54. Dearly loved husband of Dianne and loving father of his four girls. Funeral service to be held at St Margaret's Church, Hemmingford Abbots, Cambs on Monday 13th July at 2.30 pm, followed by a private cremation. Family flowers only please, but if desired donations may be made to either the National Trust for Scotland or Cancer Relief McMillan fund:

C/o Dennis Easton, Funeral Service, The Lodge, Boardleas, St Ives, Cambs, PE17 4PU.

Boots joins queue of UK groups seeking long finance

By Simon London

BOOTS, the pharmaceutical and retailing group, yesterday launched a £250m 25-year bond issue – the latest UK company to raise long-term funding in the international bond market. The deal was wholly underwritten by Barclays de Zoete Wedd, which lead-managed a £400m 14-year issue by Hanson, the industrial conglomerate, on Monday.

However, unlike the Hanson deal, the paper issued yesterday was entirely placed by BZW. The bonds are unusual in paying 10½ per cent coupons quarterly. The lead manager said the structure matched the cash-flow requirements of a handful of institutional investors.

Bankers speculated that the issue had been "stripped" by BZW: the coupons had been sold separately from the underlying bonds. Stripped bonds are often bought by insurance companies, which use the coupons as backing for long-dated obligations such as annuities.

Boots will use the proceeds of the issue to repay short-term bank borrowings. At the end of the last financial year, the group showed short-term debt amounting to just over £300m. Some of the proceeds of the deal were swapped in floating rate sterling, although the longer-dated portions will be held as fixed-rate obligations.

At an issue price of 100.325,

INTERNATIONAL BONDS

the bonds yield around 140 basis points more than UK government paper. There are few comparable corporate bond issues outstanding, since most other deals of this maturity are secured on the assets of the issuer. Yesterday, the Hanson bonds were trading at a yield spread of around 126 basis points, from 128 basis points at launch.

Elsewhere, Confederation Life, the Canadian life insurance company, raised £100m five-year funds from a deal lead-managed by Warburg Securities. The 9.5 per cent bonds were re-offered to investors at a fixed price of 99.20, where the yield is 40 basis points more than gilts.

Participants in the deal said the pricing was fair for a company rated AA+, just one notch below the top triple-A credit rating, by Standard & Poor's, the US agency.

Against this, the deal was Confederation Life's first sterling bond issue and the company remains less well known in the UK than in North America. However, demand was easily sufficient to support the issue. By the close in London, the issue was trading at around the launch spread.

Britannia Building Society also raised £100m, from a four-year issue of floating rate notes. The paper pays 15 basis points more than the three-month London interbank offered rate and were re-offered to investors at a fixed price of 99.73. At this level, the bonds pay a margin of 24 basis points over Libor, roughly in line with outstanding Britannia paper in the secondary market.

In the Eurodollar sector, Thyssen, the German industrial group, made a rare appearence in the public debt markets. The group raised $200m seven-year funding in a deal lead-managed by Dresdner Bank.

Thyssen does not carry a credit rating but is one of Germany's best-known industrial groups. The 7½ per cent bonds, priced to yield 84 basis points more than US Treasury bonds, sold briskly to continental European retail investors, banks and some investment institutions.

City of Yokohama launched a long-awaited $130m 10-year issue lead-managed by Bank of Tokyo Capital Markets. The paper was priced to yield 36 basis points more than Treasuries – considered tight by some participants in the deal, and unnecessarily generous by others.

● Republic of Ireland yesterday raised $300m in the US bond market. The 10-year yankee bond issue, lead-managed by Lehman Brothers, was priced to yield 40 basis points more than US Treasury bonds.

Bankers said that the borrower achieved a lower cost of funds than issuing in the international bond market. A Eurodollar issue may have been priced to yield up to 10 basis points more, although higher fees are charged by underwriters in the US market. Ireland is rated AA3 and AA- by Moody's and Standard & Poor's, the US rating agencies.

● The long-term debt rating of Banca Nazionale del Lavoro (BNL) has been downgraded by Moody's from Aa1 to Aa3. About $2.7bn of debt is affected. The rating agency cited concerns about asset quality and the effectiveness of the bank's risk management controls, as well as the longer-term profitability of the bank.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Thyssen Finance(a)†	200m	7½	101.70	1999	1⅞/1.425	Dresdner Bank
City of Yokohama(a)†	130	7⅝	101.615	2002	2/1⅞	Bank of Toyko Capt.Mkts
Shochiku Co Ltds(a)‡	100	2⅝	100	1996	2¼/1½	Nomura Intl.
STERLING						
Britannia B/Society(e)‡†	100	(e)	100	1996	0.37/0.27	Natwest.Capt.Mkts
Confed.Treasury Service(a)†	100	9.5	100.775	1997	1⅞/1.525	S.G.Warburg
FRENCH FRANCS						
Credit Foncier(b)†	300	8.53	99.60	2004	-	Paribas Capt.Mkts.
Credit Foncier(c)†	300	8.73	99.50	2004	-	Paribas Capt.Mkts.
Societe Generale(a)†	3.5bn	10	99.92	1999	0.25/0.0375	Societe Generale
Credit Lyonnais(d)†	1bn	10	101.31	1995	22.5/12.5	Credit Lyonnais
SWISS FRANCS						
SNCI(a)†	150	7⅜	101⅝	2000	-	SBC
PESETAS						
Eurofima(a)†	15bn	11.35	101.15	1997	1⅝/1½	Banco Santander

**Private placement. §Convertible. ‡With equity warrants. †Floating rate note. †Final terms. a) Non-callable. b) Bunny Bond. Fees undisclosed. Non-callabe. c) Bunny bond. Coupon payable only in new bonds, no cash option. Non-callable. d) Fungible with existing French Franc 3.2bn issue. Non-callable. e) Coupon pays 18bp above 3 month Libor. £75m issued now, remaining 25m issued as a tap after first 3 month payment.

Flow of new issues set to tail off as US demand weakens

By Tracy Corrigan

THE FLOW of new equity offerings, which reached a record volume in the first half of this year, was boosted by a constant stream of deals from the US, where companies took advantage of a bullish stock market to rebuild their balance sheets.

Of a total $13bn of international equities launched in the first half, offerings by US companies accounted for $5bn, according to IFR Securities Data. In the US market, US companies raised $41.3bn.

But in recent weeks the depressed state of the world's stock markets has taken its toll on the international equities market, and the strong US component of the market is now under threat.

Investors have become increasingly disgruntled with the performance of deals launched earlier this year, with US initial public offerings (IPOs) down by an average of about 8 per cent, according to bankers.

The cancellation of a large $600m initial public offering by Dr Pepper/Seven-Up, the soft drink manufacturer, is the most significant of a series of pulled or postponed deals.

However, the market is not closed, but rather has become highly selective.

INTERNATIONAL EQUITY ISSUES

"There are two trends: a flight to quality and an acute sensitivity to valuation," said one banker.

Some bankers point out that the new issues market normally experiences a seasonal lull in the summer, even without depressed stock market conditions.

Still, a number of US IPOs with international tranches are under way.

The planned offering for Revlon, the US cosmetics and consumer group, has been halved but is going ahead at just under $200m (or 11m shares). The deal will be priced shortly. The US tranche is arranged by Merrill Lynch and the international portion by Credit Suisse First Boston.

Meanwhile, Equitable Life, the US life insurance company, hosted roadshows in Europe last week for its $544m IPO, arranged by Goldman Sachs. The deal is expected to be priced next week.

Among other US IPOs, Computervision is planning a $300m deal, via Lehman Brothers and GTec Holdings, a lottery operator, is preparing a $150m offering, via Donaldson Lufkin Jenrette.

Withholding tax agreement helps lift German paper

By Richard Waters in London and Patrick Harverson in New York

NEWS that an agreement had finally been reached in Germany on withholding tax on interest income lifted bund prices yesterday, with gains for both short and longer-dated bonds. But the bund market failed to take any further heart from comments by Mr Nicholas Brady, the US treasury secretary, that the German authorities are in a position to cut interest rates soon.

Mr Brady's suggestion that German interest rates could come down – "not tomorrow, not the next day, but some time in the near future" – was widely seen as a manifestation either of wishful thinking or politicking.

A sharp fall in the dollar helped to spur some other bond markets, particularly Japan.

Yesterday's agreement for a 30 per cent withholding tax in Germany, reached by an arbitration committee, was in line with the market's hopes. No attempts will be made to reduce bank secrecy, stemming fears of a capital flight from the country. The new tax, to be levied from the beginning of

GOVERNMENT BONDS

next year, is projected to contribute some DM40bn in 1993 and 1994 to the German unity fund.

The news helped lift prices – though with a larger than normal issue of bonds expected later in the week, the reaction was muted. The 8 per cent bonds due 2002 rose to 100.20 by the close, from 100.16 the previous day. On Liffe, the bund futures contract, which opened up at 88.18, eased off during the day to end at around 88.15.

■ FURTHER sterling weakness yesterday meant a lacklustre day for UK government bonds, with the pound dropping closer to the 2.88 level against the D-Mark.

The Bank of England was able to supply more gilts to the market, selling more of the 2½ per cent index-linked issue announced last Friday. However, the bulk of the £700m announced continues to hang over the market, holding back prices.

Prices moved up during the day, only to fall back to around their opening levels. The partly-paid 9 per cent bonds due 2012 gained ⅛ of a point on the day to 36⅞, while the 11¾ per cent bonds due 2003/07 lost ⅛ of a point.

Losses among shorter-dated bonds were more marked, continuing the disappointment at the Bank of England's failure to engineer an interest rate cut after optimistic signs on Friday. The 10 per cent gilts maturing in 1996 lost ⅜ of a point, to 103⅛.

■ US Treasuries retained their firm tone yesterday morning, and with demand stronger at the short end of the market the yield curve continued to steepen.

By midday, the benchmark 30-year government issue was up ⅛ at 104⅞, yielding 7.613 per cent. The two-year note was firmer at midsession, up ⅛ at 101⅛, to carry a yield of 4.383 per cent.

For the second consecutive day investors showed a preference for shorter dated securities, with the yield on the two-year note falling further than the yield on the 30-year bond.

Analysts said that the steepening of the yield curve was a reflection of investor concern that the Federal Reserve's aggressive interest rate cut last week could eventually revive inflationary pressures in the economy over the longer term.

■ JAPANESE government bonds continued their advance as the yen gained ground against the dollar. Although the Bank of Japan continued to signal that a cut in the Official Discount Rate, currently at 3.75 per cent, was not imminent, the market remained confident that a cut would come before long. The benchmark No 129 was trading late in the day in London at a yield of below 5.20 per cent, down from 5.23 per cent yesterday.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	108.9030	-	8.67	8.91	8.96
BELGIUM		9.000	08/01	101.2500	+0.200	8.79	8.87	8.87
CANADA *		8.500	04/02	104.4000	+0.450	7.84	8.17	8.29
DENMARK		9.000	11/00	99.9700	+0.020	8.99	9.07	8.91
FRANCE	BTAN	8.500	03/97	98.2734	+0.037	8.94	8.98	8.91
	OAT	8.500	11/02	98.5000	+0.160	8.71	8.79	8.70
GERMANY		8.000	01/02	100.2300	+0.070	7.98	8.05	7.94
ITALY		12.000	05/02	94.8300	+0.310	13.39†	13.22	13.04
JAPAN	No 119	4.800	06/99	98.9220	+0.181	5.41	5.48	5.70
	No 129	6.400	03/00	108.5657	+0.382	5.18	5.28	5.48
NETHERLANDS		8.250	09/02	99.7700	-	8.27	8.31	8.31
SPAIN		11.300	01/02	97.6500	+0.800	11.86	11.61	11.28
UK GILTS		10.000	11/96	103-05	-4/32	9.09	9.24	9.30
		9.750	08/02	104-25	-3/32	9.02	9.17	9.18
		9.000	10/08	101-14	-0/32	8.83	8.98	8.97
US TREASURY *		7.500	05/02	104-16	+8/32	6.87	7.15	7.29
		8.000	11/21	104-17	+4/32	7.61	7.81	7.88
ECU (French Govt)		8.500	03/02	97.6500	+0.030	8.86	8.84	8.80

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Only 94 companies refer to accounts standards

By Andrew Jack

FEWER than 100 companies worldwide make reference to international accounting standards in their accounts, according to a survey from the International Accounting Standards Committee (IASC).

The Scandinavian countries, France and Canada dominate the list, while only one UK company – Ocean Wilsons in its 1990 accounts – has made mention of the standards.

A total of 94 companies refer to the IASC, including several from Italy, the US and Japan. There is also at least one Polish company and three international organisations.

Mr David Cairns, secretary-general, said he was disappointed that only a very small number of listed companies referred to the standards 19 years after the IASC was established. But he said that a growing number were now beginning to do so, mainly as a result of either national requirements to state that they conformed with accounting standards, or by a desire to make their financial statements more attractive so they could gain access to international capital markets.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 7

U.S. DOLLAR STRAIGHTS — OTHER STRAIGHTS — DEUTSCHE MARK STRAIGHTS — FLOATING RATE NOTES — SWISS FRANC STRAIGHTS — CONVERTIBLE BONDS — YEN STRAIGHTS

Issued	Bid	Offer	Chg. day	Yield
[illegible]				

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	12	56	14
Other Fixed Interest	1	3	11
Commercial, Industrial	216	405	820
Financial & Property	107	177	310
Oil & Gas	8	24	55
Plantations	0	1	8
Mines	19	52	79
Others	38	47	46
Totals	401	765	1,343

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price £	+ or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -
[illegible]							

LIFFE EQUITY OPTIONS

Option	Calls			Puts		
[illegible]						

TRADITIONAL OPTIONS

● First Dealings July 6
● Last Dealings July 17
● Last Declarations Oct. 1
● For settlement Oct. 12

3-month call rate indications are also shown on this page.

Calls in Gresham Telecomputing, Hartstone, Medeva, Queens Moat Houses, Tarmac, Trafalgar House and Williams Hldgs. Puts in Clarke Foods and Storehouse.

TRADITIONAL OPTION 3-month call rates

	p		p		p		p
INDUSTRIALS		Charter Cons.	37	Ladbroke	18	Sears	6½
Allied-Lyons	49	Comm Union	34	Legal & Gen	22	SmKl Bchm A	60
Amstrad	6	Courtaulds	36	Lex Service	22	TI	55
Assoc Brit Fds	[illegible]	Eurotunnel	32	Lloyds Bank	32	TSB	11½
BAT Inds	58	FKI	10	Lonrho	7	Tesco	22
BOC	53	FNFC	6	Lucas Inds	12½	Thorn EMI	65
BTR	35	Forte	18	Marks Spencer	27	T & N	11½
Barclays	25	GKN	35	Midland Bank	30	Unilever	70
Blue Circle	24	Gen Accident	35	NatWest Bank	26	Vickers	8½
Boots	43	GEC	15	P & O Dfd	52	Wellcome	75
Bowater	33	Glaxo	64	Racal Elect	8½	**OILS**	
Brit Aerospace	26	Grand Met	50	RHM	17	Aviva Pet	25
British Steel	7	GRE	17	Rank Org	53	BP	18
BT	29	Hanson	21	Ratners	3	Burmah Castrol	48
Cadburys	28	ICI	80	Reed Intl	44	Conroy Pet	6½
						Gaelic Res	1½
						Premier Cons	2½
						Shell	55
						Tuskar Res	4
						PROPERTY	
						Brit Land	13
						Land Sec	38
						MEPC	26
						Mountleigh	1½
						MINES	
						RTZ	47

Seeboard up 45% and gives customers rebate

By David Lascelles, Resources Editor

SEEBOARD, the electricity distributor serving south-east England, yesterday reported a sharp increase in profits – and immediately promised a minimum £10 rebate for all its customers.

Mr George Squair, chairman, said that the rebate and recommended 17 per cent dividend increase "provide evidence that privatisation can bring benefits to shareholders and customers alike".

Seeboard's pre-tax profits for the year ending March 31 were £98.4m, up 45 per cent from the £67.8m given in the pro forma accounts for last year's privatisation. This amounted to earnings per share of 53.5p, up from 36.5p.

The company's mainstream business continued to grow despite the recession.

Electricity distributed rose by 1.4 per cent, and the average tariff increase amounted to 1.9 per cent. The distribution business made a profit of £91.5m, up from £64.2m. Controllable costs were reduced by 3.6 per cent.

The supply business made a profit of £4.3m, down from £7.2m because of the squeeze on margins.

Seeboard has regained 31 large industrial customers in its area, but Mr Jim Ellis, chief executive, stressed that Seeboard only accepted business in this market if it was profitable.

The non-regulated businesses saw their contribution fall from £2.9m to £2m because of the recession.

Retailing turnover was up 11 per cent to more than £50m, and electrical contracting work rose to £26m, up 15 per cent. Seeboard is also expanding into the power generation and gas distribution business.

Seeboard's dividend increase is the largest so far proposed in this round of electricity results. The final pay-out will be 12.25p making a total dividend of 17.25p. Dividend cover increased from 2.5 to 3.1.

Mr Ellis said the result pointed to an underlying growth in the business of about 1 per cent.

Mr Squair, who will be succeeded by Sir Keith Stuart in September, said: "Seeboard has come through the testing initial period which followed flotation with flying colours."

● COMMENT

The £10 rebate – which will cost Seeboard about £20m – will be seen as a stunt to deflect attention from high profits and the most handsome dividend increase seen in the sector so far. But the real reason is the regulatory system which requires regional electricity companies to set their tariffs on the basis of forecasts of costs rather than past history, and Seeboard overestimated them. Even so, this is one of the best electricity company results to date, showing underlying growth and a well covered dividend. The stock market seemed to think Seeboard's concern for its customers is good for business: the share price rose a few pence to 330p where the yield is 5 per cent, one of the lowest in the sector.

Hillsdown acquisition gets MMC clearance

By Angus Foster

THE MONOPOLIES and Mergers Commission has cleared Hillsdown Holdings' purchase of the fruit and vegetable canning and ambient stored meals businesses of Associated British Foods.

The MMC said the acquisition gave Hillsdown substantial market shares in those sectors and for individual products. Hillsdown and Anglian Canners, one of the businesses acquired, had combined sales of £130m in 1990, equal to a little more than half the total UK market for canned seasonal vegetables.

But the MMC found Hillsdown was unlikely to be able to exploit its position because of the buying power of multiple retailers and competition from other producers.

The MMC also decided the market for ambient stored meals would not be damaged. Competition was provided by branded products and by chilled and frozen meals.

Cellnet helps Securicor to 97% growth

By Roland Rudd

A SHARP recovery at its Cellnet mobile telephone system during the half year to March 31 helped lift pre-tax profits at Securicor, the security, parcels and communication company, by 97 per cent to £26.6m compared with £13.5m.

Sales for the half year were £288m (£275m).

Cellnet, which is 40 per cent owned by Securicor and its sister company, Security Services, produced in its second half pre-tax profits of £57m (£30m). Cellnet's contribution to Securicor's operating profits was therefore increased from £12.1m to £22.8m.

Mr Roger Wiggs, chief executive of Securicor, said Cellnet's result was based on the popularity of its new call-back message system introduced in November. Although it was introduced after its main rival, Vodafone, introduced its call-back system, Mr Wiggs described it as the "most sophisticated" in the market.

Benefits from Cellnet's call-back system helped offset the £3.33m (£5.19m) loss from Securicor's other cellular operations.

Operating profits from parcels delivery increased from £1.97m to £3.96m following the group's decision to offer a higher premium service. Its sales were £110m (£102m) and 2.2 parcels were delivered to each customer compared with an average of 1.8 parcels. Since the acquisition of most of Federal Express' UK operations Securicor has 15 per cent of the overnight parcel delivery market.

Roger Wiggs: call-back message system proved popular

Security profits fell from £4.36m to £3.45m as the group took a £860,000 redundancy cost over the closure of its West Drayton office near Heathrow.

The interim dividend is increased to 0.665p (0.616p). Earnings per share increased to 10.8p (7.1p).

Security Services, Securicor's 50.75 per cent subsidiary, made pre-tax profits of £18.6m (£8.8m). Earnings rose to 9.8p (5.6p). The interim dividend is 1.394p (1.291p).

● COMMENT

An 8 per cent dividend increase against a 97 per cent pre-tax profit increase looks rather mean. It should, however, be remembered that Securicor only derives its contribution from Cellnet in the form of an after-tax dividend at the year end. That dividend is unlikely to top £15m. Nonetheless, investors will understandably be disappointed if the group does not raise its final dividend by more than a 8 per cent. Cellnet's figures, while better than anticipated, need to be put into context. For the full year to March it made pre-tax profits of £106m compared with Vodafone's £272m. Cellnet argues, with some justification, that the figures are not comparable since Vodafone is sitting on a cash pile. Yet Cellnet still has some catching up to do. With Securicor's forecast pre-tax profits of £59.4m, giving earnings per share of 24.6p, its A shares – up 15p to close at 571p – are on a demanding prospective multiple of 23.

Yorkshire Electricity improves to £142m

By Juliet Sychrava

YORKSHIRE Electricity yesterday announced one of the more modest profit increases of the sector reporting season.

Pre-tax profits for the 12 months to March 31 amounted to £141.9m, a 21 per cent increase on the previous year's pro forma figures, giving earnings per share of 48.3p.

A proposed final dividend of 12.53p lifts the total to 17.76p; the company said it expected to maintain real dividend growth of between 5 and 8 per cent.

The reason for the modest underlying growth in earnings was that the company was not forced to push tariffs up as sharply in April 1991 as regionals who had undercharged the previous year.

The main distribution business contributed most to the profits upturn, making operating profits of £135.3m against £107.4m.

This was mainly due to higher tariffs, but about 1.5 per cent of the increase came from a modest 0.9 per cent increase in volumes sold.

Costs in the business rose by about £4m net, after a saving of 2 per cent real, or about £3m after 100 jobs were cut.

The supply business saw operating profits fall to £8.9m (£14.2m). Costs rose as the company made a £8m (£3.5m) provision for bad debts and spending on customer services rose.

The retail business incurred a loss after a bad debt provision at the interim stage of about £10m, but was now trading profitably.

Contracting and other non-core businesses made a small contribution.

The company expects little improvement in electricity sales, but fairly consistent cost and job cutting.

The gas marketing business, set up last month, will begin earning in August.

● COMMENT

Yorkshire deserves a prize for avoiding the clichés of every other regional company about matching shareholders' and customers' needs. It has a good record on customer service and its tariff increases this year are the second lowest of the 12 companies. Thus, it can afford to express confidence in the regulatory formula by charging customers the maximum allowable. This strategy of collecting a bit extra in advance has pleased shareholders, made sure the supply business is in profit, and cushioned the company against unexpected cost increases. But given that the regulator yesterday emphasised that he would clamp down on companies' charges to customers if he thought they were not cutting costs enough, Yorkshire's 2 per cent real cost saving might look a little modest. Analysts expect pre-tax profits this year of £155m-£160m, putting the shares on a prospective p/e of 6.4 to 7.9. A dividend of between 19.5p and 19.9p is forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals.

TODAY

Interims- Gardiner, M & G Dual Trust, Newman Tonks.

Finals- Bespak, Bogod, Budgens, Dixons, Eastern Electricity, French Connection, Gibbon Lyons, Hollas, Tops Estates.

FUTURE DATES

Interims-	
Aberforth Smaller Cos	July 17
Simon Engineering	Aug. 5
Trust of Property Shares	July 13
Finals-	
Brasway	July 16
Shield	July 24
Tomkins	July 13

3i's new accounts lift veil on activities

By Andrew Jack

"IT'S ABOUT lifting the veil," says Mr Ewen Macpherson, chief executive of 3i, the venture capital group, in a reference to the accounting changes and greater disclosure in the company's latest set of accounts.

This year's financial statements provide far more information than either their predecessors, or many of their investment trust and venture capital competitors. They also represent a move to less conservative policies.

In his review, Mr Macpherson highlights three areas of change in the accounts for the year to March 31 1992, which he says should provide a better understanding of the company's "strengths and long term philosophy":

● disclosure of valuations policy on investments, and a change in some of these policies

● division of operating costs between revenue and investment realisation profits

● details of the portfolio, listing investments in excess of £5m, and giving a geographical and industrial split for all

He says the changes reflect 3i's intention to seek a listing. They may yet be in the last set of accounts before the delayed flotation takes place.

Mr Brian Larcombe, executive director for finance and planning, argues that the new approach places the accounts "on the high ground", notably with a fair value for the assets on the balance sheet, while he says the accuracy of some other companies' valuations has been criticised.

A three-page valuation policy statement shows that 3i calculates the gross valuation of profit-making companies by multiplying the latest reported earnings by the FT-Actuaries p/e ratio for the relevant industrial sector.

Loss-making companies are generally valued at half the net tangible asset value, or if failure is expected, the equity is valued at nil. New investments are generally valued at cost until the first post-acquisition accounts are received.

3i then applies a liquidity discount to the gross value to reflect their lack of marketability. These have ranged from 40 per cent for companies with a capitalisation below £5m, through 20 per cent for investments on the unlisted securities market to nothing for listed investments and those valued at cost.

The company recently reviewed the valuation policies reducing its top rate 40 per cent discount to 30 per cent, and valuing USM stocks at mid-market prices. That has increased net asset values by £32m.

By transferring £13.6m of the operating and administrative costs from revenue to an investment realisation profits reserve, 3i is adopting a policy used by many investment trusts. But it also has the advantage of increasing the company's dividend cover, since it is only allowed to pay dividends from revenues.

The geographical and industry-sector break-down of investments gives an insight into the breadth of the 3i portfolio. But the disclosure of investments above £5m is not complete. Up to ten of the 80 enterprises did not want to be named.

Howden rises to £18m as Danish provisions fall

By Peter Pearse

HOWDEN GROUP, the Glasgow-based engineer whose recent results have been plagued by a contract to supply tunnelling machines to Denmark, lifted pre-tax profits from £2.99m to £18.1m in the year to April 30 after a sharp reduction in exceptional provisions relating to the Danish contract.

The company said that MT Group, the international consortium constructing the twin rail tunnels under the Great Belt waterway, had recently escalated the contractual disputes with James Howden, which supplied four boring machines, by threatening to demand payment of two bank guarantees – a performance bond of £7.8m and another for liquidated damages of £5.8m.

This, Howden said, was despite indications given to the contrary and despite MT defaulting on payments to James Howden and denying it the right to perform under the contract.

Howden described the consortium's move as "a tactical manoeuvre" in the long-running dispute which is before the courts in Scotland and arbitration in Denmark.

Howden has applied for an injunction to prevent MT "pulling" the bonds, but said that, even if that happened, the damage to Howden would be slight – the £13.6m loss would not much hurt the now "sound balance sheet".

Acknowledging that the Great Belt contract had not benefited the company one penny and had been a main claim on the board's time, Howden said that £8.4m cash from operations and £30.4m from August's rights issue had reduced group borrowings from £63.7m to £24.9m over the year. Subsequently interest charges fell from £9.58m to £5.13m, helping the pre-tax increase.

The company said that MT dispute was not a shackle on its operating businesses, though the lack of Great Belt work accounted for £20m of the fall in turnover to £292.3m (£330.6m). Group operating profits rose by £1.3m to £24.3m.

Last time's exceptional charge of £10.4m shrank to £1.07m. This was further provision for possible future legal costs on the dispute.

Mr John Jackson, chairman, said that Howden's "strength in international markets had protected it from the worst of the recession". The order book at the beginning of the current year stood at £300m (£250m), which includes Howden Canada's £64m share of a yet to be finalised power station plant order from Iran.

Mr Jackson said that the air and gas handling division – 48 per cent of group turnover – "had a busy and successful year", while construction and mining equipment's was "disappointing". Aerospace "experienced a significant contraction in its markets" and processing and packaging "operated in quieter market conditions".

The proposed final dividend is 1.3p (nil) making 2p (1.59p) for the year, as forecast last July, payable from earnings of 5.7p (1.4p).

P&P turns round to £1m

By Peter Pearse

P&P, one of the UK's largest distributors of personal computers, saw pre-tax profits shrink from £3.3m to £1m in the six months to May 31.

However Mr David Southworth, chairman, stressed that profits this time represented a sharp turnround – in the second half of last year P&P incurred losses of £2.6m. Many people had been writing the company off, he said, "but P&P is far from dead." However, the interim dividend is almost halved to 0.7p (1.33p).

He said the company was now over the worst, though he added that in a recession where manufacturers reduced prices, the competition was squeezed.

"Vigorous cost reductions" and "a revision of the whole cost structure" had been implemented to achieve the turnround. This resulted in the loss of almost 200 jobs, though this figure is clouded by the acquisition of ICI Computer Systems. The ICI deal – a four-year agreement whereby P&P supplies the chemicals company with its PC needs – is a model for future P&P partnerships.

The European operations are seeing the same drop in prices and margins as the UK side, said Mr Southworth, but were reacting more quickly, because lessons had been learned.

Last time's pre-tax profits would have been £2m greater but for an exceptional charge relating to a stock write-off for discontinued lines. Turnover this time slipped to £119m (£121m). Earnings shed 2p to 0.9p per share.

PUBLIC WORKS LOAN BOARD RATES

Effective July 6

Years	Quota loans* EIP†	A††	maturity§
1			9¾
Over 1 up to 2	9¾	9¾	9¾
Over 2 up to 3	9¾	9¾	9½
Over 3 up to 4	9⅝	9⅝	9½
Over 4 up to 5	9½	9½	9½
Over 5 up to 6	9½	9½	9⅝
Over 6 up to 7	9½	9½	9⅝
Over 7 up to 8	9½	9½	9¾
Over 8 up to 9	9½	9⅝	9⅞
Over 9 up to 10	9⅝	9⅝	9⅞
Over 10 up to 15	9¾	9⅞	10
Over 15 up to 25	10	10	9⅞
Over 25	10	9⅞	9⅞

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. ††Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). §With half-yearly payments of interest only.

Tokyo gives cautious response to Wellcome

By Emiko Terazono in Tokyo

WELLCOME has received a cautious response from investors in Tokyo, the first stop on a global road show to promote the international tender offer for the drug company's shares.

As Mr John Robb, chief executive, moved on to presentations in the US this week, most Japanese investors said they would wait to see the reaction in other parts of the world before deciding on how big a commitment to make to the shares.

"We'll need to see the reaction of investors overseas," said a fund manager at Tokyo Marine and Fire, a leading non-life insurance company. He added that buying Wellcome would mean selling stocks such as Glaxo or Smith-Kline Beecham, in order to maintain his portfolio's exposure to British pharmaceutical companies.

Although Wellcome is known in Japan for AZT, its anti-Aids drug which achieves local annual sales of Y25bn (£105m), its presence lags behind other leading UK drugs companies.

One fund manager said he was thinking of spending Y30m but considered the share price still too high despite its sharp fall since the issue was announced. "The offer doesn't seem to be generating excitement, and I would rather buy shares of Astra, the Swedish drugs company," he added.

Many Japanese institutional investors, hurt by the slump in the domestic stock market, are looking to decrease investments. Last year, net purchases of foreign stocks by Japanese investors fell from $6.3bn to $3.6bn (£1.9bn).

Some 250 investors turned up to Wellcome's Tokyo presentation but they will have to wait until next Monday before they can begin to participate in the tender process.

An automatic initiative to take on Goliath

Andrew Baxter on how Control Techniques plans to attack a global mass market

THERE IS nothing wrong with being ambitious, but some western industrialists who have seen their markets hammered by Japanese competition might think Mr Trevor Wheatley and Control Techniques have gone too far.

Mr Wheatley, chairman of the Powys-based controls and drives producer, is about to attack a mass market of fundamental importance to the development of factory automation but one where the UK has been conspicuous for its absence – except, as so often happens in engineering, in the pioneering years of the 1950s and 1960s.

This autumn, two years after CT bought Cranfield Precision Systems, it will start shipping a product that it hopes will put the British flag on a map dominated by powerful Japanese, US and continental European companies – the world market for computer numerical control (CNC) equipment used to run machine tools.

The story has all the hallmarks of a David and Goliath encounter, with no guarantee of a similar ending. Control Techniques is no minnow – sales could reach £100m this year – but recognises it faces a tough challenge against far larger companies, Fanuc of Japan and Siemens of Germany.

Fanuc has about 50 per cent of the world market, while Siemens is market leader in Europe and credited by many European machine tool builders for polishing up its act in recent years. And Allen-Bradley, the CNC supplier owned by Rockwell of the US, hopes that with a new product range it will regain market share lost over the past decade.

According to the UK head of one big rival producer, therefore, CT "would be better to concentrate on a niche rather than take us on head-on."

However, Mr Terry Margetts, Cranfield's sales and marketing manager, says he would like to see CT being number one in the European market in five years time. "It will mean a lot of work, but it's not impossible," he says.

The CT initiative raises some questions: is it launching too late into the mass CNC market, or right to take the plunge in the middle of a worldwide machine tool recession, and, most importantly, does it have the right product?

Mr Wheatley robustly defends the initiative. First, he says, it was important for CT to have a CNC range to accompany drives and servos that are increasingly bought in a package by machine tool builders.

As such, the CNC launch caps an acquisition programme that began with Soprel, the Italian servo drive company, and Moore Reed, the UK brushless motor producer, before CT took over the Cranfield company in 1990.

Secondly, CT genuinely believes it has come up with something different. Its new flexible numerical control (FNC) technology has been developed as a mass-market product from Cranfield's existing, highly sophisticated CNC equipment.

According to Mr Margetts, CT found that while there was still a market for Cranfield's highly-specialised 16-axis control, the machinery industry overall was crying out for a low-cost but flexible approach where optional extras are standard, and end-users have the power to customise their system whenever and however they wished.

"We now have a highly competitive total package to offer to the machine tool industry," says Mr Wheatley.

CT is gambling that the machine tool industry and its customers will like FNC enough to specify it in preference to other CNC technology.

In its favour is the Cranfield name, and the fact that there are already plenty of big users of its existing top-of-the range system. Machine tool builders are often willing to switch CNC systems if a customer requests it, so long as there are no technical obstacles.

The recession, too, could even have a beneficial effect on early sales of the FNC system, says Mr Wheatley. "If you are a machine tool builder and you're not selling, you've got to look at every aspect of your machine. If we can offer a new product at a lower price or at a competitive price, he's going to take it."

Initially, the challenge for CT will be to win market acceptance for the product. One UK machine tool builder said it had no doubts about FNC's technical excellence, but felt it should wait a few years to see how the initiative developed before committing itself to a new supplier.

A second problem for CT is the risk of being drawn into a price war by the larger concerns. CT plans to be competitive, but will also stress other factors such as UK delivery times of one to three days compared with seven weeks for some competitors.

For a UK entrant to the market, CT also faces the need to develop overseas sales quickly without overstretching itself. The company is now working on engineering support and training for the European market, but Mr Wheatley says: "We're not going to rush in. We'll select where we go, and the way we do business."

CT is discussing two deals, one in Germany and the other in the US, to supply FNC to electrical companies which offer part of the machine tool drive package but lack a CNC range. This, says Mr Wheatley, would be a way for CT to develop volume quickly.

Along with the other acquisitions, the FNC initiative ought to enable CT's automation division to double or treble its £20m sales over the next two to three years, he says. CT now has the potential to sell a £10,000 package to machine tool builders, compared with £1,000 before its acquisitions programme.

This could transform the shape of CT, which is selling its loss-making process control division to concentrate on automation, and motion control where it makes most of its profits. The bulk of the process control side has been bought by Corecl of France in a deal announced last month.

This year, the City expects CT to make pre-tax profits of about £7m, up from £4.1m in 1991, on turnover boosted by the 1991 takeover of Emerson Electric's industrial control drives division. The US company gained a 29.9 per cent stake in CT in exchange.

For the FNC initiative to succeed the company will have to do more than win technical plaudits from the machine tool industry. In the UK, Mr Margetts' plan to extol the virtues of buying British might strike a chord with machine tool builders worried about foreign dominance of the CNC equipment used on most metal cutting machine tools. "The UK machine tool industry would welcome a British CNC producer," said one potential customer. Buying it will be the acid test.

SEP to boost dividend

SEP Industrial Holdings, a manufacturer and distributor of engineering products, raised pre-tax profit from £319,000 to £378,000 in the half year to March 31.

Reflecting that improvement, directors of this USM-quoted company intend to lift the dividend from 0.2p to not less than 0.65p and have declared an interim of 0.3p.

Turnover came to £11.6m (£26.2m). Comparisons included £13.5m sales and £123,000 profit attributable to Combori Group and American Socket Screw Manufacturing. Earnings per share were 0.7p (0.26p).

Mr Paul Formby, chairman and chief executive, said the reorganisation reduced gearing and SEP was producing significantly improved results even before the recession ended.

The better half year reflected an improved contribution from distribution, which was expected to continue. Acquisition of Huntingdon Fastener further increased market share.

Activity in manufacturing remained subdued throughout the period but "we are starting to see the first tentative signs of a recovery".

Aberdeen Steak chief says no to minority purchase

By Angus Foster

AFTER NEARLY two years of reflection, Mr Ali Salih, chairman of Aberdeen Steak Houses, the loss-making restaurant chain, has decided he will not offer to buy out the company's minority shareholders.

Mr Salih, who owns 78 per cent of the company, said in August 1990 he was talking to his bankers about buying out minorities at a price "unlikely to be materially different" from the 67p flotation price when the shares were listed on the USM in 1985.

Yesterday he said he would no longer proceed with the plan, prompting another fall in the share price, which dropped 2p to 18p.

The market was always sceptical about Mr Salih's plans and has marked the shares down as losses mounted since 1989.

Last year losses were contained to £422,000 compared to £3.27m in 1990.

Securiguard ahead 20%

HELPED BY a substantial cut in interest charges, Securiguard Group raised interim pre-tax profits by 20 per cent.

Turnover in the 28 weeks to May 17 moved up to £88.8m (£84.9m) but trading profit fell to £3.4m (£3.77m). Interest took £792,000 (£1.32m) to leave the pre-tax balance at £2.6m (£2.16m after an exceptional charge of £287,000).

Mr Alan Baldwin, chairman, said the continuing focus on credit control and cash collection contributed to the interest savings and that progress was expected to be maintained in the second half.

In the UK, the security division's results were down on last year's outcome which was temporarily boosted by the Gulf crisis. Indications were that it would achieve second half profits similar to last time.

Cleaning and maintenance lifted profits 16 per cent from turnover up 6 per cent; the communications side had mixed trading and personnel services reduced losses significantly.

Earnings per share rose to 8.6p (7.2p) and the interim dividend goes up to 3.5p (3.2p).

NEWS DIGEST

Bimec tops £6m but sees downturn

FOLLOWING AN extensive restructuring programme, Bimec Industries, the aerospace, waste treatment and engineering company, increased pre-tax profit from £5.36m to £6.04m for the year ended March 31, on turnover up from £74.5m to £103m.

Each of the group's main divisions was profitable, although the company warned that orders were now down to £50m compared to £55m at this stage last year. The half year results would therefore be disappointing unless there was an early upturn in the economy, the company said.

Earnings per share remained stable at 5.1p – after allowing for the rights issue last July – and an increased final dividend of 0.83p (1p) is recommended, to maintain the total at 1.5p.

Gresham Telecomp at £294,000

Gresham Telecomputing reported pre-tax profits of £294,000 for the six months to April 30 on turnover of £3.95m.

Pro-forma figures for the six months to March 31 1991 from the combined results of Gresham Telecomputing for the six months and Gresham Computer Holdings for five months showed pre-tax profits of £253,000 on turnover of £4.89m.

Earnings were 0.57p and there is no interim dividend.

The company said that there had been a reduction in revenues as a result of tough trading conditions and concentrating on higher margin products.

Miskin plans its reorganisation

Miskin Group, the USM-quoted contractor, property development and plant hire group, is to prepare for the future in an "organised and practical manner", according to Mr Jeffrey Goodman, chairman.

It will continue to improve sales, reduce debt by selling off properties, and divest itself of less profitable businesses.

That will maximise profits and reduce overheads by reverting to the profitable core business – building and plumbing contracting and plant hire – of the principal subsidiary, leaving options open in respect of the future direction to be taken.

Mr Goodman warned that substantial provision may be needed in the accounts for the year to July in respect of any discontinued trading activities or disposals.

In the half year ended January 31 the group produced turnover of £6.2m (£4.94m) and pre-tax losses of £414,000 (£630,000). However, an extraordinary credit of £2.92m, following the financial restructuring last October, left a retained profit of £2.51m (loss £630,000).

Comparatives were for the middle term of an 18 months period to July 31 1991, when losses reached £7.36m after exceptional charges of £4.82m.

Enlarged RPH falls to £82.1m

RPH, a wholly-owned subsidiary of Reed International, reported pre-tax profits of £82.1m from turnover of £483.8m in the year to end-March.

This compared with profits of £91.2m from turnover of £542.4m last time and was struck after a reduced interest charge of £10.6m (£12.7m).

Tax took £28m (£31.5m) after which earnings per share came out at 31.2p (41.1p).

During the year RPH acquired The Estates Gazette, Newpoint Publishing and What to Buy from Reed International. To finance these acquisitions RPH issued 14.6m ordinary shares its parent.

Evans of Leeds advances to £8.52m

Against the industry trend, Evans of Leeds, the north of England-based property company, turned in a 6 per increase to £8.52m in pre-tax profits for the year to March 31. The rent roll improved from £16m to £18.3m.

"Despite the aura of doom and gloom surrounding the property industry we have once again increased profitability, for the 22nd time in succession," said Mr John Humphries, chairman.

Earnings per share rose to 10.67p (9.44p) and an increased final of 2.85p is recommended, making a total of 4.15p (3.74p).

AB Engineering £73,000 lower

Despite good results from Middle East activities, Associated British Engineering recorded a small second half loss to finish the year to March 31 with pre-tax profits £73,000 lower at £35,000.

Last year's figure was struck after an exceptional charge of £132,000.

The Middle East operations turned round from £62,000 losses to profits of £543,000. However, marine diesel spares and services slipped to £272,000 (£387,000), while catering equipment and diesel power engineering incurred losses of £141,000 (£195,000 profits) and £12,000 (£448,000 profits) respectively.

Turnover slipped to £34.2m (£36.5m). Losses per share edged up from 0.02p to 0.07p and the dividend is halved to 0.05p (0.1p).

Colefax and Fowler declines to £704,000

Difficult trading conditions prompted a further decline at Colefax and Fowler Group, the wallpaper, fabric and furnishing company.

Pre-tax profits for the year to end-April were £704,000, against £1.18m last time and £4.01m the year before.

Mr David Green, chief executive, said that overall trade sales in the UK fell by 11.5 per cent reflecting a fall off in contract orders. Retail sales were also badly affected, he said, and the group was examining ways of reducing costs.

In contrast, continental sales showed a near-8 per cent expansion, with a particularly good performance by Jane Churchill products which jumped by 44 per cent.

Mr Green reiterated that future growth, scheduled to be achieved through expansion of product and services, was dependent "on the rate of return of consumer confidence."

Turnover dipped to £29.1m (£30.2m). Earnings per share, helped by a £221,000 tax credit, emerged at 3.7p (4.7p). A same-again final dividend of 1.3p maintains the total at 2.6p.

Oceonics sharply ahead to £2.72m

A high level of offshore activity in the North Sea helped Oceonics Group report a substantially improved annual performance.

On sales of £38.9m (£30.5m) for the year to March 31, the group, now refocused as a precision navigation and marine surveying company, achieved £2.72m at the pre-tax line, up from £938,000 last time.

Net cash of £300,000 at the year-end compared with debt of £3.9m, partly reflecting the successful £2.6m rights issue late last year.

Earnings, after allowing for an unpaid preference dividend of £324,000, were 1.2p (0.1p).

Receivers to go in at 2 Colorgraphic arms

Colorgraphic, the advertising and direct mail literature group, has asked its bankers to appoint receivers at two subsidiaries, Color Response and CCS Pipebrook.

The group said the receiverships would not affect its continuing discussions with its bankers. Colorgraphic's shares were suspended on June 30 pending clarification of its financial position.

Real Time Control static at £1.19m

Real Time Control reported slightly lower pre-tax profits of £1.19m for the year to March 31, against £1.2m.

Higher operating profits of £780,000 (£720,000) were offset by lower interest received of £412,000 (£479,000) resulting from lower interest rates.

Turnover for the USM-quoted company, which services electronic point of sale systems, fell from £7.57m to £6.84m. Earnings per share were 11.1p (10.9p) after a lower tax charge of £415,000 (£439,000).

A maintained single final dividend of 3p is proposed.

M&W affected by Sunday opening

M&W, which operates convenience stores and cash and carry warehouses, announced pre-tax profits down from £914,000 to £564,000 for the half year to March 29.

The company said difficult trading conditions had been exacerbated by the decision of the main multiples to open on Sundays. However, sales were now recovering and a better second half was expected.

On turnover of £33.4m (£30.9m) operating profits amounted to £622,000 (£712,000) and the pre-tax result was after £42,000 (£202,000) net interest receivable.

The interim dividend is held at 1p, payable from lower earnings of 2.8p (3.7p) per share.

Improved controls boost Creighton's

Creighton's Naturally, the USM-quoted maker of toiletries and beauty products, lifted pre-tax profit by 30 per cent in the year to March 31, although sales were lower.

Mr Richard Collard, chairman, said improvements in production efficiency and operational cost control contributed greatly to the expanded profit.

From sales down nearly £1m at £10.2m, profit worked through at £934,000 (£720,000). Earnings per share were 13.1p (10.4p) and the final dividend is 5p for a total of 7p (6.2p).

Mr Collard said stocks were reduced by £600,000 and debtors by £600,000, allowing the company to benefit from cash surpluses and the elimination of a net interest charge.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
AB Engineering	fin	0.05	Oct 1	0.1	0.05	0.1
Bimec Inds	fin	0.83†	Sept 4	1	1.5	1.5
Colefax & Fowler	fin	1.3	Oct 1	1.3	2.6	2.6
Creighton's §	fin	5	Sept 16	4.4	7	6.2
Equity Consort	fin	13.125	Aug 21	18.75	24.1875	23.25
Eq'ty Consort Df	fin	26.25	Aug 21	37.5	39.375	37.5
Evans of Leeds	fin	2.85	Aug 21	2.56	4.15	3.74
Howden	fin	1.3	Oct 1	nil	2†	1.59
M&W	int	1	Aug 21	1	-	2.25
P&P	int	0.7†	Oct 5	1.33	-	4.33
Real Time §	fin	3	Oct 5	3	3	3
Securicor	int	0.685	Sept 25	0.616	-	2.338
Securiguard	int	3.5	Aug 19	3.2	-	8.5
Security Service	int	1.394	Sept 25	1.291	-	4.488
Seeboard	fin	12.25	Oct 5	10.36	17.25	10.36
SEP Industrial §	int	0.3	Oct 1	nil	-‡	0.2
3i	fin	7.6	-	7.13	10.9	10.43
Yorkshire Elect	fin	12.53	Oct 5	10.81	17.76	10.81

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Minimum 0.35p final forecast.

Cocoa agreement talks focus on withholding plan

By Frances Williams in Geneva

A SCHEME to withhold cocoa from the oversupplied world market is expected to dominate this week's meeting of producers and consumers.

Delegates gathered here for a second round of talks on a new accord to replace the present International Cocoa Agreement, which expires in September 1993, say the three-week meeting, held under the auspices of the UN Conference on Trade and Development, will focus on the scope, finance and operation of the export withholding scheme proposed by consuming countries to stabilise prices.

Although the producers have not formally withdrawn their preferred export quota plan, it is regarded as having effectively been abandoned at the first round of talks in April.

Producing countries, hit hard by the slump in cocoa prices, overproduction and excess stocks, are anxious to conclude a new agreement before the current cocoa year ends in September. But delegates believe another session of talks is likely to be needed. These have already been pencilled in for next November.

Mr Kouame N'Guessan of the Ivory Coast, the world's largest cocoa producer, speaking for all producers at Monday's opening session, said they had come to the meeting "ready for compromise". However, Mr Zago Jacob Goffa, the Ivory Coast delegate, said any new agreement must stabilise prices at remunerative levels.

Under a withholding scheme, this would mean withdrawing whatever quantity of cocoa from the market was necessary to defend an agreed price range, Mr Goffa said. Producers want to keep the price range at the SDR1,485-2,155 a tonne (£1,120-£1,620) ruling when the International Cocoa Organisation suspended price support early in 1988.

The European Community, which accounts for 40 per cent of world cocoa consumption, has proposed limiting withholding to 250,000 to 300,000 tonnes. Consumers see export withholding as a temporary measure while producers put in place, by quotas or other means, tough curbs on production to balance world supply and demand. Producers want more onus on withholding to "manage" the market.

Bartering for the riches of cash-starved Turkmenistan

Steve Levine on the economically-backward republic's efforts to capitalise on its wealth of resources

A COUPLE of dozen western businessmen gathered last month in what must have been the unlikeliest site in the former Soviet Union for a sales exhibition, and at the end they had one, unanimous opinion.

"They don't have any money," says Mr Ian Forrester, managing director of the Kent-based food company Healthyfood Marketing, one of the disappointed participants in the week-long exhibition.

The westerners were attracted mostly by talk of Turkmenistan's coming riches. The most discussed subject was its 10 trillion (million million) cubic metres of proven natural gas reserves. About 85bn cu m – worth about $6bn at present prices – is extracted annually. Initial engineering has also begun on a $1bn Italian proposal for a refinery to exploit Turkmenistan's oil reserves. The republic has 213m tonnes of proven oil reserves, according to the government, and is producing 5m tonnes of oil and condensate a year. "This country is richer than Qatar," claims a senior diplomat.

The trouble is that so far little of this wealth has translated into cash for the 4m people of this Central Asian backwater that borders Afghanistan and Iran to the south and the Caspian Sea to the west.

"The only way these people will do business is with barter," says Mr Forrester, who plans to barter his product for another of Turkmenistan's natural resources, dried fruit and nuts. "And while others won't, we will barter. These fruits and nuts are the basic components of the products we are producing anyway." Mr Forrester is discussing a deal in which his muesli breakfast food product of raisins, nuts and other dried fruit could be manufactured in Turkmenistan, slowly and cheaply at first. The goal would be eventually to develop a new market for the cereal, which at present has a turnover of just $4m a year.

In contrast to the Slavic and Baltic states, business in former Soviet Central Asia has evolved slowly since the superpower broke up. Other than in Kazakhstan, there is no private enterprise to speak of. Decisions are made almost solely in the president's office. President Saparmurad Niyazov, for example, recently declared that there could be no private sale of apartments or homes for another 10 years. And, for now, the Turkmen government is talking only in terms of joint ventures with foreign companies rather than allowing them to buy whole plants or concessions, says Mr Abdi Kuliev, the foreign minister. "There are people now who have enough money to buy all state property. But we don't want to let them buy it. That's why we want joint ventures – to control both sides."

Until the republic became independent with the Soviet Union's collapse in December, Moscow exploited Central Asia largely as a resource store, carting away cotton, natural gas, oil, silk and gold to factories in Russia and other republics. So the Asian republics are now starting largely from scratch economically, and indeed are virtually broke. The situation is not helped by the resistance of their authoritarian leaders, steeped in centuries of feudal history in addition to the 70 years of communism, to anything less than complete control of every undertaking.

In Turkmenistan, there is money to be made – if one can get to President Niyazov to talk about it. Much of the money will probably be earned from the natural gas deposits.

The trouble for Turkmenistan is that most of the natural gas until recently went to Russia and the Ukraine: only about 20bn cu m could be exported elsewhere. Because of a dispute over Turkmenistan's decision to start charging former Soviet republics hard currency for its gas the government has shut off the pipeline to the Ukraine and is looking elsewhere for customers. Unfortunately that pipeline is just about the only way to transport the gas anywhere.

Turkey, Iran and Turkmenistan have signed what one diplomat describes as a "gentlemen's agreement" to build a $3bn natural gas pipeline from Turkmenistan, across Iran and into Turkey. But that deal is on hold for now. As Turkey and Iran are in fierce competition for influence in Central Asia, the Iranian government is reported to be less than fully co-operative in getting the deal finalised. Moreover, international bankers are thought to be worried about Tehran's reliability as a business partner. "If there is trouble, Iran could just turn off the pipeline," says one Asian businessman who operates in Turkmenistan.

Another proposal is to add value to the gas by building a petrochemical plant to produce liquefied natural gas, some of which could be shipped to Kazakhstan, Iran or Turkey to make polymers.

One businessman who is optimistic about opportunities in Turkmenistan is Mr Paul Acuterate, the 28-year-old president of Alpax, the Paris-based company that sponsored the exhibition. He is comparing Turkmenistan to Kuwait a few decades ago. Turkmenistan has a few other enthusiastic supporters as well, but most of them see in it something to watch and deal with carefully.

"To compare Kuwait and Turkmenistan, well, I could compare a donkey and a duck, but I would not try to eat a donkey, nor ride a duck," says Mr Daniel Perrin, director general of the French company Amca Chimie et Plastiques.

For the present creative barter seems almost the only way to go.

Rome-based Tecnologie Progetti Lavori has signed a $350m deal to build a 100,000 sq m textile plant at Ashkabad, Turkmenistan's capital. The contract, by far the largest Turkmenistan has concluded with a foreign company, was endorsed personally by President Niyazov.

The state-owned plant, under construction 5 km (3 miles) south of the city centre, is to be finished by October 1994. Initially it is to produce terry cloth and, eventually, clothes, according to Mr Pierre Stainier of TPL.

Payment is complex, he says. TPL is to receive the hard-currency equivalent of its fee in cotton. But, under to the deal, Turkmenistan is to "convert" the cotton to hard currency itself by selling it abroad, then hand over the proceeds to TPL. Turkmenistan produces 1.4m tonnes of cotton a year, until now using all but 300,000 tonnes at home. The cotton itself is a guarantee of eventual payment. "Sometimes we've had to stop construction because they've been slow paying us. But then they do pay us, and we begin building again," Mr Stainier says.

TPL has now begun moving earth in a desert site 300 km north-east of Ashkabad, near the Amu Darya River, for a proposed $1bn oil refinery. The plant, 2 km long and 1 km wide, will provide Turkmenistan's first opportunity to produce petrol for export.

Only the engineering stage has been agreed to so far. If the government agrees to a construction contract, the two sides will probably employ a barter arrangement – based on refined crude – for payment, Mr Stainier says.

Mexico's 'outstanding' oil find

By Damian Fraser in Mexico City

PETROLEOS MEXICANOS has discovered an offshore oil well described as having "outstanding hydrocarbon reserves".

The well was found in the Sonda de Campeche sea area and is expected to produce about 14,000 barrels of crude a day and 2.6m cubic feet of gas. This is roughly double the average production of existing wells in the Sonda de Campeche.

The well is located 95 km (60 miles) north-east of Ciudad Carmen and is 55 metres (180 feet) deep.

US challenges claims of 'non-subsidisers'

By Nancy Dunne in Washington

CANADA AND Australia, two countries that consider themselves "non-subsidisers" in the world wheat market, both provide indirect subsidies through their wheat boards and government farm programmes, according to a new report issued by the US General Accounting Office.

The GAO said the governments of both countries have on occasion reimbursed their wheat boards for annual losses. In 1985, when the US introduced an export subsidy scheme to counter similar European Community subsidies, the Canadian government reimbursed its board for a $19m loss. In 1986-87, the government paid $140m to compensate for the board's shortfall in the 1986-87 season when wheat export prices plummeted. The marketing boards, said the GAO, offered different prices to different customers and seek to capture new markets by selling grain at lower-than-posted prices.

Canada supports farmers with freight subsidies, crop insurance and guaranteed minimum prices. Australia has a rural family farm adjustment scheme and farm input subsidies. Both have export credit guarantee programmes, enabling them to take on riskier markets.

According to figures from the Organisation for Economic Co-operation and Development, in 1990 Australian government assistance provided wheat farmers with 11 per cent of their income. US and EC wheat farmers received 44 and 48 per cent of their income from government programmes. Canadian wheat producers received from 43 per cent.

El Niño drought 'appears to be over'

THE DROUGHT that has ravaged crops and cost hundreds of millions of dollars in countries across Asia and the South Pacific appears to be over, meteorologists say, reports Reuter from Sydney.

Its cause, the climatic phenomenon known as El Niño, is dissipating with some areas returning to normal weather conditions more quickly than others, they said.

Australia is among the first of the major agricultural producers to emerge from drought in most areas, while in India a return to normal rainfall is expected in the late monsoon.

China's northern provinces are still in the grip of drought, however, though it is unlikely to have much impact on the country's international trading position.

"We're now in the declining phase of El Niño, it's global and it has had an effect since early last year all round the planet, particularly in the tropical regions," an official at Australia's National Climate Centre said.

Ocean waters in the central and eastern equatorial Pacific, which had warmed under El Niño were continuing to cool quite rapidly, the climate centre reported.

Australia, whose farm sector was ravaged by drought and economic recession, has already felt the effect of the changing conditions. "Australia tends to climb out of it earlier than others," the official said.

Drought conditions still persist in some areas of New South Wales and southern Queensland but local output of grain and sugar is forecast to recover significantly after last year's drought across eastern Australia.

The total value of wheat, coarse grains and sugar is forecast to rise by nearly 30 per cent to A$3.14bn ($2.2bn) in the year to the end of June, 1993, compared with the previous drought-hit year.

In India however, the change is taking longer to come through. "It is expected to come back to average in the late monsoon season," Australia's climate centre official said. Erratic rains in India last year caused food grain output to fall to about 171m tonnes in the year to June 30, 1992 from the previous year's record 176m tonnes.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,730-1,755 (1,725-1,750).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.45 (2.30-2.60).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.75-0.95 (0.60-0.85).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 22.50-24.00 (23.50-25.00).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 140-160 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.35-2.45 (2.40-2.45).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 53-62 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.00-2.10 (2.05-2.15).

URANIUM: Nuexco exchange value, $ per lb. U_3O_8, 7.75 (same).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+25	to 1,300,580
Copper	+3,625	to 262,750
Lead	+950	to 146,600
Nickel	−1,782	to [illegible]
Zinc	+1,200	to 333,250
Tin	+10	to 13,410

Sugar suppliers seek CAP reform compensation

By Canute James in Port of Spain, Trinidad

CARIBBEAN countries that supply sugar to the European Community are asking the community to consider compensation for the lower prices they expect to result from agricultural policy reform.

At their annual summit here, leaders of the Caribbean Economic Community (Caricom) said that, although proposals for the reform of the European Community's sugar regime had not yet been finalised, "the principle of compensatory payments to EC farmers has already been agreed".

The Caricom leaders said the compensation should be paid to all members of the African, Caribbean and Pacific (ACP) group that supply sugar to the community. The ACP states supply 1.3m tonnes a year under quota. The price they receive has been determined traditionally by the price paid to the EC's domestic producers.

"The European Community has always maintained that ACP cane sugar should be treated on par with community sugar," the heads of government said. They said the Uruguay Round of trade negotiations and the reform of the European Community's common agricultural policy "could result in a dramatic reduction in the price of sugar, which would reduce the income earned by the industry".

Caribbean government officials have said that, if current proposals on sugar within the General Agreement on Tariffs and Trade were implemented, the ACP states could lose about 8 per cent of their earnings from the sales to the community. ACP producers receive an average price of £349 a tonne from the EC.

The ACP producers are also hoping to increase the volume supplied to the community through increased access to Portugal. Representatives of the Sugar Association of the Caribbean, a federation of regional producers, said there has been "little progress" in efforts to widen the Portuguese market. Since it joined the EC in 1986 Portugal has been allowed to import some of its sugar from the world market, and to buy some from some ACP producers, but at world market prices.

ACP officials say the termination of this transitional arrangement at the end of this year will coincide with efforts by the group to have Portugal's purchases from the ACP at world market prices and the country's additional world market requirements both added to the ACP's quota.

WORLD COMMODITIES PRICES

MARKET REPORT

Three-month **COPPER** came to within a whisker of $2,500 a tonne on the LME against a background of US investment fund buying, with selling well absorbed. The rise represented the resumption of the recent uptrend after a spell of consolidation, with early gains prompted by Far Eastern buying, dealers said. In afternoon trading Comex copper futures were setting lifetime highs on the back of continued fund buying. LME **ZINC** leapt higher during kerb trading, with speculative buying pushing the three-month price above $1,300 a tonne. New York arabica **COFFEE** futures were firm at midday on renewed short covering after Monday's fall. Analysts said sentiment that Brazil's coffee sector might be getting closer to a unified proposal on an international price support plan lent background support. In London, where robusta coffee closed ahead, news that Brazil would be happy with a 20m bag share of a global quota of 70m bags was seen as mildly constructive. In Chicago **SOYABEANS** were firmer at midday on concerns that hot temperatures next week could endanger the developing crops, traders said.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$18.20-8.30z	-.375
Brent Blend (dated)	$19.85-9.90	-0.60
Brent Blend (Aug)	[illegible]	-.575
W.T.I (1 pm est)	$21.40-1.50z	-.525

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$224-226	-3
Gas Oil	$183-184	-3
Heavy Fuel Oil	$82-84	-1.5
Naphtha	$194-195	-6

Petroleum Argus Estimates

Other		+ or -
Gold (per troy oz)♣	$345.65	-0.90
Silver (per troy oz)♣	[illegible]	-18
Platinum (per troy oz)	$382.75	[illegible]
Palladium (per troy oz)	$82.25	-1.25
Copper (US Producer)	115.77c	+0.02
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	17.64r	[illegible]
Tin (New York)	329.50c	-3.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	108.42p	-0.01*
Sheep (live weight)†♣	75.84p	+2.66*
Pigs (live weight)†	85.69p	+0.01*
London daily sugar (raw)	$249.0w	[illegible]
London daily sugar (white)	$293.5w	+1.5
Tate and Lyle export price	[illegible]	-2.5
Barley (English feed)	£111.0	
Maize (US No. 3 yellow)	£149.0	
Wheat (US Dark Northern)	Unq	
Rubber (Aug)♥	50.00p	[illegible]
Rubber (Sep)♥	50.00p	-0.25
Rubber (KL RSS No 1 Jul)	220.0r	
Coconut oil (Philippines)§	$567.5x	-2.5
Palm Oil (Malaysian)§	$387.5z	+2.5
Copra (Philippines)§	$372.5	
Soyabeans (US)	£135.5	-4.0
Cotton "A" Index	65.10c	[illegible]
Wooltops (64s Super)	377p	

£ a tonne unless otherwise stated. p-pence/kg c-cents/lb r-ringgit/kg.t-Aug/Sep y-July w-Jul/Aug z-Aug. †Meat Commission average fatstockprices.* change from a week ago ♥London physical §CIF Rotterdam. ♣ Bullion market close m-Malaysian cents/kg ♣Sheep prices are now live weight prices †‡ previous figure should have been 250.5

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Aug	227.00	233.00	227.00	222.00
Oct	213.60	209.60	213.00	209.20
Dec	196.00	196.00	191.00	
Mar	204.40		[illegible]	
White	Close	Previous	High/Low	
Aug	[illegible]	290.00	291.90	290.00
Oct	265.00	264.00	265.00	263.00
Dec	265.50	264.00	264.50	264.00
Mar	268.00	267.40	268.50	267.00
May	271.70	271.90	272.50	271.50
Aug	276.00	276.40	276.60	276.10
Oct	[illegible]		267.50	267.00

Turnover: Raw 52 (93) lots of 50 tonnes. White 1992 (1324) Paris- White (FFr per tonne): Aug 1471.52 Oct 1349.12

CRUDE OIL – IPE			$/barrel	
	Close	Previous	High/Low	
Aug	20.04	20.57	20.49	19.90
Sep	20.07	[illegible]	20.47	19.97
Oct	20.09	20.49	20.43	20.00
Nov	20.12	20.44	20.33	20.09
Dec	20.09	20.35	20.29	20.00
Jan	19.96	20.24	20.17	19.90
IPE Index	20.67	20.80		

Turnover 59000 (20097)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Jul	182.75	187.00	[illegible]	[illegible]
Aug	[illegible]	189.00	188.25	184.00
Sep	186.00	190.75	[illegible]	[illegible]
Oct	[illegible]	193.25	191.75	188.50
Nov	190.25	194.75	193.75	190.25
Dec	191.75	196.50	194.50	191.50
Jan	190.00	194.00	192.75	190.00

Turnover 25321 (11019) lots of 100 tonnes

COTTON

Liverpool- There were no spot or shipment sales recorded for the weeks ending July 3 and June 26. Activity was severely restrained and business was on narrow lines. High cost of raw cotton deterred users from increasing their purchases.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Jul	570	582	580	568
Sep	584	596	595	582
Dec	613	618	621	609
Mar	641	646	646	638
May	657	663	665	656
Jul	676	677	677	671
Sep	693	693	693	689
Mar	745		750	748

Turnover: 3030 (6116) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 6 760.02 (750.44) 10 day average for Jul 7 712.81 (705.05)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jul	705	691	705	691
Sep	717	703	720	705
Nov	734	722	737	722
Jan	753		758	750
Mar	772		789	788
May	791	780	794	

Turnover 1782 (1389) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul 6: Comp. daily 47.25 (-) 15 day average 47.57 (-)

POTATOES – London FOX			£/tonne
	Close	Previous	High/Low
Apr	84.8	[illegible]	[illegible]

Turnover 33 (119) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Aug	117.50	[illegible]	[illegible]
Oct	119.00	120.00	119.00

Turnover 500 (175) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Jul	1025	1025	1026	1025
Aug	1045	1040	1045	
Oct	1190	1185	1190	
Jan	1230		1230	
BFI	1047	1043		

Turnover 75 (115)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Nov	115.00	[illegible]	115.00	114.75
May	[illegible]	124.00	124.20	124.00
Jun	125.70		125.70	
Barley	Close	Previous	High/Low	
Sep	110.20		110.20	
Nov	113.75	113.50	113.75	113.50
Jan	116.80	116.70	116.80	
Mar	118.95	119.00	119.00	118.95
May	120.60	120.50	120.60	120.40

Turnover: Wheat 182 (168). Barley 189 (150). Turnover lots of 100 Tonnes.

PIGS – London FOX			(Cash Settlement) p/kg
	Close	Previous	High/Low
Jul	113.5	112.0	112.5
Aug	103.0	101.5	102.0

Turnover 11 (20) lots of 3,250 kg

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 34,850 lots
Cash	1311-2	1318.5-9.5	1277	1311-1.5		
3 months	1336-7	1343-4	1341/1332	1337-7.5	1339.5-40.5	185,230 lots
Copper, Grade A (£ per tonne)						Total daily turnover 32,008 lots
Cash	1306.5-7.5	1300-1	1295.5	1295.5-6		
3 months	1313.5-4	1309-10	1318/1299.5	1303.5-4	1318-9	125,959 lots
Lead (£ per tonne)						Total daily turnover 8,514 lots
Cash	314-5	313-4	307	308.75-7.25		
3 months	325-6	324-4.5	330/318	318.5-9	330-1	23,415 lots
Nickel ($ per tonne)						Total daily turnover 5,680 lots
Cash	7545-55	7582-7		7440-5		
3 months	7605-10	7630-5	7610/7510	7520-5	7605-10	21,422 lots
Tin ($ per tonne)						Total daily turnover 2,362 lots
Cash	7090-100	7105-205	7085	7095-5		
3 months	7110-5	7210-5	7140/7060	7100-5	7150-5	10,860 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 28,409 lots
Cash	1293-5	1261-3		1276-9		
3 months	1293-4	1276-7	1310/1280	1276-7	1308-9	85,098 lots

LME Closing £/$ rate: SPOT: 1.8980 3 months: 1.8868 6 months: 1.8658 9 months: 1.8411

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	345.45-345.85	
Opening	346.50-346.90	
Morning fix	345.80	178.883
Afternoon fix	345.60	179.374
Day's high	346.50-346.80	
Day's low	344.70-345.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	3.10	6 months	3.09
2 months	3.07	12 months	3.14
3 months	3.05		

Silver fix	p/troy oz	US cts equiv
Spot	203.20	391.75
3 months	208.25	395.10
6 months	213.45	399.05
12 months	223.35	407.05

GOLD COINS	$ price	£ equivalent
Krugerrand	345.00-347.00	180.00-182.00
Maple leaf	356.15-358.45	-
New Sovereign	83.00-85.00	43.00-45.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Dec	Sep	Dec
1250	91	119	6	13
1350	27	64	42	48
1450	4	19	118	108
Copper (Grade A)	Calls		Puts	
2350	171	159	6	27
2450	91	95	25	61
2550	38	51	70	114
Coffee	Sep	Nov	Sep	Nov
650	80	83	7	11
700	37	50	24	28
750	13	26	50	53
Cocoa	Sep	Dec	Sep	Dec
575	18	33	11	17
600	8	22	22	27
625	3	10	38	39
Brent Crude	Aug	Sep	Aug	Sep
2000	30	40	21	
2050	10	37		
2100	4	22	65	

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Jul	346.2	346.5	0	0
Aug	347.1	347.5	347.2	345.6
Sep	347.9	348.3	0	0
Oct	348.8	349.2	348.8	347.6
Dec	350.8	351.2	350.9	349.5
Feb	352.7	353.2	352.6	352.0
Apr	354.6	355.2	354.7	353.6
Jun	356.7	357.3	0	0
Aug	358.9	359.5	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	385.0	388.2	[illegible]	[illegible]
Oct	386.0	388.0	386.5	383.0
Jan	384.5	386.5	384.5	382.5
Apr	384.5	386.5	383.5	383.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Jul	387.3	402.8	390.6	382.0
Aug	388.5	404.3	0	0
Sep	389.5	405.3	[illegible]	383.5
Dec	393.6	409.6	396.0	387.0
Jan	395.2	411.3	0	0
Mar	398.1	414.3	401.0	394.0
May	401.0	417.4	400.0	399.0
Jul	403.9	420.5	410.0	400.0
Sep	407.0	423.9	408.5	404.0
Dec	412.1	429.5	415.0	408.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	112.95	111.56	113.50	111.75
Aug	113.40	111.65	113.75	112.25
Sep	113.20	111.85	114.00	112.00
Oct	112.90	111.15	0	0
Nov	112.50	110.90	0	0
Dec	112.00	110.65	112.70	111.10
Jan	111.30	110.05	112.00	110.20
Feb	[illegible]	[illegible]	0	0
Mar	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)			
Jul 7	Jul 6	mnth ago	yr ago
1548.1	1548.8	1550.3	1735.4

DOW JONES (Base: Dec. 31 1974 = 100)			
	Jul 4	Jul 3	mnth ago	yr ago
Spot	118.39	-	118.60	128.70
Futures	118.72	-	118.65	123.41

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Close	Previous	High/Low	
Aug	21.40	21.89	21.65	21.20
Sep	21.44	21.79	21.60	21.20
Oct	21.31	21.72	21.46	21.15
Nov	21.26	21.61	21.45	21.10
Dec	21.24	21.59	21.36	21.15
Jan	21.15	21.47	21.28	21.10
Feb	21.05	21.34	21.15	21.00
Mar	20.94	21.21	21.00	20.90
Apr	20.83	21.06	20.85	20.86
May	20.74	20.89	20.83	20.75

HEATING OIL 42,000 US galls, cents/US galls				
	Close	Previous	High/Low	
Aug	58.73	[illegible]	[illegible]	[illegible]
Sep	59.73	[illegible]	[illegible]	[illegible]
Oct	60.[illegible]	[illegible]	[illegible]	[illegible]
Nov	61.[illegible]	[illegible]	[illegible]	[illegible]
Dec	62.[illegible]	[illegible]	[illegible]	[illegible]
Jan	63.[illegible]	[illegible]	[illegible]	[illegible]
Feb	62.[illegible]	[illegible]	[illegible]	[illegible]
Mar	59.[illegible]	[illegible]	[illegible]	[illegible]
Apr	57.[illegible]	[illegible]	[illegible]	[illegible]
May	56.[illegible]	[illegible]	[illegible]	[illegible]

COCOA 10 tonnes; $/tonnes				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	58.[illegible]	[illegible]	[illegible]	[illegible]
Sep	60.[illegible]	[illegible]	[illegible]	[illegible]
Dec	63.[illegible]	[illegible]	[illegible]	[illegible]
Mar	66.[illegible]	[illegible]	[illegible]	[illegible]
May	70.[illegible]	[illegible]	[illegible]	[illegible]
Jul	72.[illegible]	[illegible]	[illegible]	[illegible]
Sep	73.[illegible]	[illegible]	[illegible]	[illegible]
Dec	77.[illegible]	[illegible]	[illegible]	[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	9.47	[illegible]	[illegible]	[illegible]
Mar	9.3[illegible]	[illegible]	[illegible]	[illegible]
May	9.3[illegible]	[illegible]	[illegible]	[illegible]
Jul	9.2[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	66.6[illegible]	[illegible]	[illegible]	[illegible]
Oct	62.4[illegible]	[illegible]	[illegible]	[illegible]
Dec	60.8[illegible]	[illegible]	[illegible]	[illegible]
Mar	61.9[illegible]	[illegible]	[illegible]	[illegible]
May	62.6[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Aug	72.375	72.975	73.050	72.350
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]

LONDON STOCK EXCHANGE

Share prices rally on bargain-hunting

By Terry Byland, UK Stock Market Editor

THE CLOUDS lifted a little in the UK equity market yesterday when several institutions began cautiously foraging for bargains among the lengthening list of share price casualties. Strategists discounted comments from Mr Nicholas Brady, US Treasury Secretary, that the Bundesbank was expected to cut interest rates "soon". The recovery of nearly 25 points on the FT-SE Index yesterday appeared to reflect factors closer to the heart of the London stock market.

Buying support was very modest, and the day's Seaq-recorded trading total reached only 381.8m shares, an improvement on Monday's 274.8m but still a poor level by more normal standards. Turnover was boosted by substantial activity in the electricity stocks after the expected pricing review turned out significantly more favourably for the distribution companies than the market had expected.

After opening firmly, the Footsie drifted down to the 2,467 area in early trading. Some fund managers, who had taken the view that 2,450 was a buying level, decided not to wait any longer in case they were overtaken by traders seeking to cut bear positions ahead of the end of the trading account on Friday.

Share prices steadied and the equity market was then given further encouragement when pressures slackened in the stock index futures sector.

Equities turned briskly higher and, helped by a steady opening to the new session in New York, where the Dow Average added 6.76 in London hours, the FT-SE Index closed very nearly at the day's best. At its final calculation, the Footsie was 24.7 up at 2,493.7, raising the hope that the 2,500 mark might be challenged again soon.

The market was helped by a good rally in British Aerospace from an initial loss, and by small gains in many of the blue chip issues which have suffered in recent sessions. Improvements in ICI, BP and Shell were of modest proportions indeed, but continued weakness in the US dollar failed to restrain these large overseas-earning shares.

However, hopes that the UK stock market might at last be seeking to establish a base level were overshadowed by concern over the outlook for Wall Street.

With last week's cut in discount rate by the Federal Reserve apparently finding little response on Wall Street, London still considers US equities overvalued and fears further weakness in New York.

Also overhanging the UK market is the increasingly serious problem of low turnover in equities. Retail, or customer, business in equities was worth only £581.4m on Monday, barely half the level regarded as profitable for the UK securities industry. Stock Exchange statistics show that daily retail volume has remained well short of £1bn for the past six trading sessions, an unhappy start to the traditionally sluggish summer season.

London securities firms have continued to trim back their office and dealing staffs, and confidence was not helped by reports that a UK clearing bank had announced redundancies among its London staff.

Account Dealing Dates		
*First Dealings:		
Jun 29	Jul 13	Jul 27
Option Declarations:		
Jul 9	Jul 23	Aug 6
Last Dealings:		
Jul 10	Jul 24	Aug 7
Account Day:		
Jul 20	Aug 3	Aug 17

*New time dealings may take place from 8.30 am two business days earlier.

FINANCIAL TIMES STOCK INDICES

	July 7	July 6	July 3	July 2	July 1	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	89.64	89.72*	89.75	89.40	89.18	84.94	89.75 (2/7)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	105.32	105.35	108.26	105.77	105.33	93.57	106.35 (6/7)	97.15 (2/1)	106.35 (6/7/92)	50.53 (3/1/75)
Ordinary Share ●	1906.2	1891.0	1915.5	1901.1	1917.3	1905.4	2149.7 (22/5)	1851.4 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	86.6	89.5	90.1	89.6	89.3	218.4	160.6 (10/1)	86.6 (7/7)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2493.7	2469.0	2497.1	2476.1	2493.9	2487.9	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1157.81	1156.32	1168.36	1160.30	1161.24	1147.93	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.62 (16/1/91)
●Ord. Div. Yield	4.81	4.87	4.80	4.83	4.79	4.94				
●Earning Yld %(full)	7.05	7.13	7.03	7.07	7.01	8.68				
●P/E Ratio(Net)(*)	17.79	17.61	17.86	17.74	17.90	14.18				
SEAQ Bargns 5.00pm	21,241	19,491	20,600	20,020	20,570	26,095				
Equity Turnover(£m)†	-	581.4	803.8	816.6	982.7	809.50				
Equity Bargains†	-	22,265	22,547	22,487	22,530	25,815				
Shares Traded (mil)†	-	262.6	343.3	339.3	412.9	365.3				

Basis 100 Govt. Secs 15/10/26. Fixed Int. 1928. Ordinary 1/7/35. Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. * Nil 16.51. * Correction

Ordinary Share Index, Hourly changes — Day's High 1906.9 — Day's Low 1885.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1898.0	1885.6	1886.3	1887.2	1891.9	1898.8	1899.9	1900.3	1906.1

FT-SE 100, Hourly changes — Day's High 2494.3 — Day's Low 2467.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2478.5	2477.7	2468.9	2470.4	2477.6	2486.5	2487.5	2488.0	2494.2

FT-SE Eurotrack 200, Hourly changes — Day's High 1159.00 — Day's Low 1151.16

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1156.95	1154.04	1153.67	1154.77	1157.71	1157.80	1157.88

GILT EDGED ACTIVITY

Indices*	July 6	July 3
Gilt Edged Bargains	94.2	94.6
5 – Day average	95.0	92.7

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index. Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ADT	10	485	+2	Comm Union	825	475	+11	Lucas	982	115	+1	Shell Transport	1,800	498	+4
ASDA Group	4,700	28½	-1	Cookson	1,100	145	-1	MB Caradon	404	253	+9	Siebe	873	654	-16
Abbey National	1,500	276		Courtaulds	1,000	525	+12	MEPC	29	394	+4	Slough Ests	13	105	+2
Albert Fisher	950	67		Dalgety	266	418	+2	Manweb	1,700	373	+18	Smith (W.H.) A	361	429	+5
Allied-Lyons	290	532	+5	De La Rue	193	559	+7	Marks & Spencer	3,300	319	+1	Smith & Nephew	1,900	140½	-1½
Amstrad	1,400	25½		Dixons	1,600	223	+6	Midland Bank	1,000	459	-6	SmKl Beecham	476	879	+4
Anglian Water	732	415	+5	Eastern Elect.	3,600	288	+7	Midlands Elect	2,300	309½	+10½	SmKl Beecham Uts	86	4005	+25
Argos	832	233	-2	East Midlands Elect	1,300	315	+20	NFC	809	260	-2	Smiths Inds	1,300	294	-5
Argyll Group	2,900	348	+5	Eng China Clays	3,300	516	+4	NatWest Bank	3,500	325	+3	Southern Elect.	2,300	308	+11
Arjo Wiggins	2,900	231	+2	Enterprise Oil	215	400	+6	National Power	3,600	245	+5	South Wales Elect.	356	369	+8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Recs gain on price leniency

THE electricity distribution companies ("Recs") surged after news that the electricity industry watchdog, Offer, is to impose a more lenient price formula on the National Grid Company (Gridco) than had been forecast by some analysts.

Offer announced yesterday that, as from April 1993, electricity price rises would be allowed to rise by the retail price index (RPI) minus three percentage points. As recently as last week there had been rumours in the market that a much stricter formula of RPI minus five points would be introduced.

Gridco is owned by the 12 Recs who derive some 10 per cent of profits from their holdings in Gridco.

"This is a good result for the electricity distribution sector," said Mr Kevin Lapwood, a utilities specialist at Nomura. Other analysts said the review was certainly not as bad as had been expected, with a pricing formula of RPI minus four points said to have been the general consensus figure. "It doesn't choke off the Recs dividend policy which is targeted at seven or eight per cent real growth," said one observer.

The Offer news coincided with good results from Seeboard and Yorkshire Electricity with Seeboard's 17 per cent dividend increase "trumping the rest of the pack", according to Mr Lapwood. East Midlands delivered the best individual performance, closing 20 up at 315p, closely followed by Manweb, 373p, and Norweb, 363p, both up 18, and Yorkshire, 17 firmer at 383p. The Electricity Package, which ceases trading on September 16, when the packages are split up, raced up 150 to £3,148.

BAe active

Speculation early in the session that Italy or Spain could soon follow Germany out of the European Aircraft Project (EFA), put the skids under British Aerospace (BAe), the UK's lead contractor on the project, sending the shares tumbling to a new low.

At the day's worst, the shares were off 29 at 208p, though few shares changed hands at that stage. Concern about the dividend and provisions that may have to be made for the regional aircraft division also continued to affect sentiment.

But later reports from Spain that it would remain involved in the project, combined with "bottom fishing" by what one analyst called "those brave enough to be in this stock", helped the shares rally off the day's low point to end a net 6 down at 231p, a three-year low.

Wellcome bounce

As the bear raiders begin to lose their influence and the global book building exercise gets under way, Wellcome bounced 17 to 900p. One investment house was talking of bids between 750p and 800p a share for the 330m shares scheduled to be released by Wellcome Trust, the charitable Trust which holds 75 per cent of the stock.

However, Robert Fleming, the private investment bank which is leading the global flotation is believed to be confident that the strike price will be significantly higher. One source close to the company said: "I would just draw people's attention to the share price at 900p."

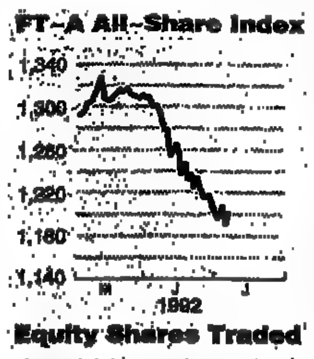
ICI recovered 6 to 1145p despite a profit forecast cut by securities house UBS Phillips & Drew. UBS reduced its 1992 estimate by £50m to £800m and its 1993 figure by £120m to £880m. However, the house maintains a buy recommendation.

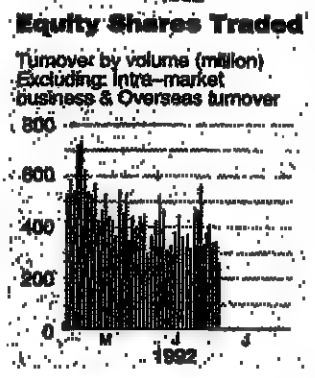
The oil majors moved ahead strongly, as did British Gas, but the second-liners were significantly lower. There were hints around the market that one of the UK's biggest institutional investors in the oil sector had been unloading large lines of stock in the smaller exploration stocks such as Premier, 1¼ off at 18½p, Goal, 2 lower at 49p, Monument Oil & Gas, a penny easier at 31¾p and Clyde, which dropped 3 to 43p.

But Enterprise Oil improved 6 to 400p despite rumblings around the oil sector about the resignation of Mr Peter Kingston, Enterprise's technical director, seen by some analysts as a potential successor to Mr Graham Hearn, the current chairman and chief executive.

Vodafone were keenly sold, closing 5 off at 326p on 5.5m shares traded amid fears of much keener competition from Cellnet. Securicor "A", which has a 40 per cent stake in Cellnet with BT owning 60 per cent, jumped 15 to 571p after the near doubled profits. BT moved up 5¼ to 346p.

Glaxo bounced 28 to 677p as UK buyers returned. However, one trader said the stock needed a kick start from some genuine good news before it would see a return to former levels.





Rumours of a profit forecast cut were said to have prompted a slide in Fisons. The rumour never materialised into fact but the damage was done and the shares fell 5 to 210p.

Dollar-sensitive Rothmans International lost 23 to 1078p reflecting a weak US currency.

Shares in Vickers fell 6 to 135p after two brokers weighed in with savage profit downgrades. Carr Kitcat reduced its current forecast by £21m to £10m blaming continued weakness at the company's Rolls-Royce subsidiary. UBS Phillips & Drew was also reported to now be expecting profits of around £10m.

The building sector tended to absorb another string of profits downgradings. A big seller moved in on Taylor Woodrow, leaving the stock 5 off at 80p. Tarmac dropped to 89p after BZW and UBS Phillips & Drew chopped their profits estimates but then responded to a flurry of stories suggesting that Charter Consolidated was still taking a hard look at acquiring the group and settled 3 up at 96½p. BZW also lowered their estimates for Blue Circle, finally 3 firmer at 210p.

With recriminations still flying over the collapse of talks to sell its catering division, Forte remained friendless. The shares slipped 5 to 173p. After its recent poor run, Rank Organisation bounced ahead of figures tomorrow, the shares rising 5 to 628p.

After outperforming the market by some 15 per cent in the last month, Northern Foods found itself out of favour. Investors took a subtle shift from Smith New Court as an excuse to take profits. The shares tumbled 14 to 608p.

MARKET REPORTERS: Peter John, Christopher Price, Joel Kibazo, Steve Thompson.

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 20.

EQUITY FUTURES AND OPTIONS TRADING

STOCK index futures bounced from Monday's falls after a large seller of the Footsie contract, who had been active over the last three sessions, completed his operations, writes Joel Kibazo.

The first trade in the September contract on the FT-SE was struck at 2,509 making a fairly firm opening. But the positive mood soon turned sour as a few independent traders and a large institution went on the selling tack, sending the contract into retreat. By 10.30am September had fallen to 2,487.

With the large sell order completed, the September contract recovered and moved into more positive territory, helping lift the underlying cash market higher.

Sentiment was also boosted by comments by Mr Nicholas Brady, the US Treasury Secretary, about a possible cut in German interest rates.

September continued to move forward in a quiet afternoon session, closing at 2,520, up 30 on the previous session and about 2 points ahead of its estimated fair value premium to cash of about 25. Turnover reached 6,696 contracts.

The day in the traded options market was dull, with turnover a meagre 21,595 contracts by the close. Some 8,624 lots were dealt in the FT-SE 100 option. British Aerospace was the most actively traded stock option at 1,484 lots.

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (27). [illegible]

NEW LOWS (162). [illegible]

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS — Tuesday July 7 1992. Figures in parentheses show number of stocks per section.

Equity groups & sub-sections	Tuesday July 7 1992
1 CAPITAL GOODS (177)	[illegible]
2 Building Materials (22)	[illegible]
3 Contracting, Construction (28)	[illegible]
4 Electricals (9)	[illegible]
5 Electronics (28)	[illegible]
6 Engineering-Aerospace (6)	[illegible]
7 Engineering-General (43)	[illegible]
8 Metals and Metal Forming (8)	[illegible]
9 Motors (14)	[illegible]
10 Other Industrial Materials (19)	[illegible]
21 CONSUMER GROUP (168)	[illegible]
22 Brewers and Distillers (24)	[illegible]
25 Food Manufacturing (19)	[illegible]
26 Food Retailing (18)	[illegible]
27 Health and Household (24)	[illegible]
29 Hotels and Leisure (18)	[illegible]
30 Media (26)	[illegible]
31 Packaging, Paper & Printing (17)	[illegible]
34 Stores (33)	[illegible]
35 Textiles (9)	[illegible]
40 OTHER GROUPS (118)	[illegible]
41 Business Services (17)	[illegible]
42 Chemicals (22)	[illegible]
43 Conglomerates (11)	[illegible]
44 Transport (14)	[illegible]
45 Electricity (16)	[illegible]
46 Telephone Networks (4)	[illegible]
47 Water (11)	[illegible]
48 Miscellaneous (23)	[illegible]
49 INDUSTRIAL GROUP (483)	[illegible]
51 Oil & Gas (17)	[illegible]
59 500 SHARE INDEX (500)	[illegible]
61 FINANCIAL GROUP (85)	[illegible]
62 Banks (9)	[illegible]
65 Insurance (Life) (6)	[illegible]
66 Insurance (Composite) (7)	[illegible]
67 Insurance (Brokers) (10)	[illegible]
68 Merchant Banks (7)	[illegible]
69 Property (31)	[illegible]
70 Other Financial (15)	[illegible]
71 Investment Trusts (70)	[illegible]
99 ALL-SHARE INDEX (655)	[illegible]

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 6	Jul 3	Jul 2	Jul 1	Jun 30	Year ago
FT-SE 100 SHARE INDEX ✦	2493.7	+24.7	2494.3	2467.6	2469.0	2497.1	2476.1	2493.9	2521.2	2484.7

FIXED INTEREST

	PRICE INDICES	Tue Jul 7	Day's change %	Mon Jul 6	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (24)	122.87	-0.06	122.94	2.06	6.48
2	5-15 years (24)	139.91	-0.05	139.97	2.58	6.89
3	Over 15 years (11)	151.05	-0.06	151.14	2.55	7.80
4	Irredeemables (6)	169.19	-0.10	169.36	1.90	7.34
5	All stocks (65)	137.06	-0.05	137.13	2.21	6.88
	Index-Linked					
6	Up to 5 years (2)	173.94	+0.04	173.87	1.01	1.83
7	Over 5 years (10)	153.94	+0.09	153.80	0.87	2.40
8	All stocks (12)	155.50	+0.08	155.38	0.88	2.31
9	Debs & Loans (62)	122.50	-0.11	122.63	2.30	6.16

	AVERAGE GROSS REDEMPTION YIELDS		Tue Jul 7	Mon Jul 6	Year ago (approx.)
	British Government				
1	Low	5 years	8.15	8.14	9.03
2	Coupons	15 years	8.69	8.69	9.85
3		25 years	8.84	8.84	9.85
4	Medium	5 years	9.05	9.05	10.24
5	Coupons	15 years	8.91	8.90	10.08
6		25 years	8.88	8.86	10.00
7	High	5 years	9.27	9.26	10.42
8	Coupons	15 years	9.06	9.05	10.21
9		25 years	8.90	8.89	10.04
10	Irredeemables		8.99	8.98	10.04
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs	4.01	4.01	4.48
12	Inflation rate 5%	Over 5 yrs	4.31	4.31	4.33
13	Inflation rate 10%	Up to 5yrs	3.30	3.30	3.66
14	Inflation rate 10%	Over 5yrs	4.13	4.14	4.15
15	Debs &	5 years	10.34	10.31	11.87
16	Loans	15 years	10.16	10.14	11.68
17		25 years	10.05	10.03	11.49

✦Opening index 2478.5; 9 am 2477.7; 10 am 2468.9; 11 am 2470.4; Noon 2477.6; 1 pm 2486.5; 2 pm 2487.5; 2.30 pm 2487.7; 3 pm 2488.0; [illegible]. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, [illegible]. NAME CHANGE: Bilton (Percy) [illegible] to now Bilton.

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

CROATIA

The FT proposes to publish this survey on September 1 1992.

This is the first survey to be published by the Financial Times on the Republic of Croatia and as such it will generate a great deal of interest among our influential readers in over 160 countries worldwide.

To reach this audience through your advertisement and to obtain a copy of the editorial synopsis contact:

Zeljko Paul Mandic
Tel: 081-399 5828
Fax: 081-399 7196
or
Connie Davis
Tel: 071-873 3514
Fax: 071-873 3428

FT SURVEYS

[illegible]

LEGAL NOTICES

In The High Court Of Justice No. 004923 of 1992
Chancery Division

IN THE MATTER OF PHARMA-PLAST HOLDINGS LIMITED
AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16th June 1992 confirming the reduction of the capital of the above-named Company from £6,250,000 to £2,060,000 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 30th June 1992. Dated this 8th day of July 1992.
Holman, Fenwick & Willan, Marlow House, Lloyds Avenue, London EC3N 3AL.
Ref: [illegible]
Solicitors for the above-named Company

[illegible]

LONDON SHARE SERVICE

AMERICANS

Notes	Price $	+ or -	1992 high	1992 low	Mkt Cap £m	Yld Gr's
Abbott Labs h	15⅞xc	+1/16	19⅛	14⅞	13,513	2.0
Allegheny & W	272p	+4	335p	226p	141.3	5.8
Amdahl	901p	−19	1159p	730p	1,869	0.6
Amer Cyanamid	[illegible]	+¼	37	28¾	2,785	2.9
Amer Express	12½xd	+1/32	13⅞	10⅞	5,937	4.2
Amer T & T	23xd	−¼	24⅞	20¼	30,986	3.0
Ameritech	[illegible]	+⅛	[illegible]	32½	14,722	5.5
BankAmerica	23⅝xd	−[illegible]	27½	19¾	8,017	2.9
Bankers NY	21xd	−[illegible]	37¼	26⅞	2,500	4.7
Bell Atlantic	23¼	−¼	26⅛	23⅛	10,009	5.0
BellSouth	[illegible]	+⅛	[illegible]	[illegible]	[illegible]	5.5
Bethlehem Steel	7⅝xd	−[illegible]	[illegible]	7	583.6	—
Bowater	[illegible]	−26	1570p	1064p	383.0	5.9
CPC h	24[illegible]xd	+½	25[illegible]	22⅞	3,777	2.5
Cadiz Land Inc	215p	—	342p	168p	—	—
California Engy	620p	—	[illegible]	620p	112.9	—
Campbell Soup	16¼xd	+[illegible]	23[illegible]	17⅞	4,844	2.1
Chase Manhattan	14⅞xd	−[illegible]	16½	9⅛	2,829	4.4
Chrysler	18⅝xd	—	11⅞	[illegible]	2,984	3.1
Citicorp	18⅞xd	−⅛	11¼	5⅝	3,814	—
Colgate-Palm	27⅝xd	+[illegible]	29⅞	25¼	4,410	2.8
Cont'l Bank	992p	+6	1038p	493p	1,082	3.2
Dana	21⅞xd	−⅛	24½	14⅞	990.8	3.8
Data General	489p	+11	1804p	368p	[illegible]	—
Decora Inds.	168p	—	122p	68p	—	—
Dun & Brad	28½	−⅛	33½	27⅝	5,263	4.0
Eaton	38⅞	−[illegible]	46½	32½	1,328	3.2
Echlin	9[illegible]xd	−[illegible]	11	7⅛	355.0	4.0
FPL	18⅞xd	−[illegible]	20	18[illegible]	3,186	7.5
Fluor	22	−[illegible]	27	20	1,621	1.1
Ford Motor	22	−[illegible]	25⅞	15	10,885	2.6
Gen Elect	40⅞xd	+⅛	46¼	40¼	34,000	2.9
General Host	435p	−9	552p	360p	—	4.6
Gillette	25[illegible]xd	+[illegible]	28⅞	23[illegible]	[illegible]	1.6
Hasbro	14⅛	−½	18	12⅝	1,271	0.8
Honeywell	34½xd	−1	43	34⅞	2,409	2.7
Houston Inds	22⅞	−⅛	25	22⅞	2,982	7.4
IBM	51xd	+⅛	54½	46⅞	[illegible]	5.3
Ingersoll-Rand h	13½xc	−[illegible]	19[illegible]	13½	1,400	2.6
Lockheed	22⅞	−⅛	26⅞	22⅞	1,488	5.2

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

Notes	Price	+ or -	1992 high	low	Yld Gr's	NAV	Dis or Pm(-)
■Scottish Inv.......†	169	-½	179	157	3.7	190.2	16.1
■ Warrants	25	—	38	24	—	—	—
■Scot Mortgage	151	+2	167	139	3.4	176.9	14.6
■Scot National Inc	85½	-½	187	83½	13.6	—	—
■ Cap	22	—	42	12½	—	17.3	-26.2
Stepped Pf.......†	141½	+½	141½	126	4.9	—	—
Zero Div Pf	185½	—	185½	166½	—	—	—
Warrants	4½	—	9	3½	—	—	—
Scot Value.......†n	82½	—	84	48	3.8	59.9	-3.5
Sec Alliance.......†	1134	+1	1283	1118	4.1	1282.5	12.3
Second Market.......s	231	—	244	222	8.8	283.8	18.6
■Sec Tst Scot	67	+½	75½	63	8.5	70.0	5.0
Select Assets	88	—	102½	88	1.3	125.5	29.9
Eq Ind Sort	117	—	120	109	4.8	—	—
Eq Ind SerII	117	—	123	109	4.8	—	—
Shires	227	—	249	195	10.8	224.9	0.9
11pc Cv Ln '03/04	£108½	-3	£119½	£95½	10.0	—	—
Sam Select	71	—	91	71	1.8	84.9	16.3
Warrants	12	—	21	12	—	—	—
■Smaller Cos	79	—	85	67	4.2	88.6	10.8
Warrants	16	—	20	10	—	—	—
■Sphere Inc.......N	13	-½	29	13	[illegible]	[illegible]	[illegible]
Zero Div Pf	75	—	77¾	65¾	—	—	—
Warrants	0¼	—	3½	0¾	—	—	—
Stratton	163	+1	168	147	1.5	177.4	13.8
Summit	88	—	55	38	3.3	108.5	54.3
■TR City of Lon.......M	114½	—	127½	97½	5.8	110.9	-3.3
■TR Euro Growth.......s	79	—	98	78	1.7	94.7	16.6
Pig Sub.......s	44	—	54	40	3.8	—	—
■TR Far East Inc. M	88	—	96	76	6.7	99.4	11.5
Warrants	16	—	22	12	—	—	—
TR High Inc	103	-2	110	91	7.8	100.2	-4.8
Sub.......g	28	—	35	27	7.1	—	—

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
● "Tap Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
◆ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
◊ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
● Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1990-91
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible] This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation, Centre Point, [illegible] London [illegible] Tel: 071 - [illegible]

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Init. Chge.	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	252.6	252.6	268.9	+1.0	0.87
(Accum Units) ♥	5	297.3	297.3	316.5	+1.2	0.87
British	5	808.3	825.2	873.1	[illegible]	[illegible]
(Accum Units)	5	1388.5	1388.9	1464.2	[illegible]	[illegible]
European	5	336.6	336.6	358.5	-0.1	1.46
(Accum Units)	5	364.9	364.9	388.6	-0.1	1.46
Japan	5	90.18	90.18	95.87	-1.6	-
(Accum Units)	5	90.90	90.90	96.64	-1.6	-
New Pacific	5	198.2	198.8xd	211.7	-2.9	1.65
(Accum Units)	5	205.1	205.8	219.1	-3.9	1.65
Investment Tr Jun 12	0	136.3	138.9	147.0	...	2.50
Mngd Equity	5	123.5	124.7xd	131.9	-0.5	2.94
Mngd Equity Acc	5	133.1	134.4	142.2	-0.5	2.94
Mngd Cash	0	95.50	95.50xd	95.50	---	9.67
(Accum Units)	0	122.0	122.0	122.0	...	9.67
Majority Sels	1	99.59	99.59xd	100.58	+0.02	9.42
Majority D.Ug	1	112.33	112.33	113.45	+0.02	[illegible]
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
International Jul 1	0	47.71	47.71	48.21	...	1.53
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham 0403 232323						
Equity	6	599.3	606.8	649.0	+0.1	3.15
North America	6	74.97	74.97	80.18	-1.18	0.55
Far East	6	82.86	82.86	88.62	-1.74	0.45
W'wide Bond	6	46.93	46.93	49.93	-0.21	6.14
European	6	66.72	66.72	71.36	-0.36	1.75
Equity Income	6	65.86	65.86xd	70.44	-0.11	5.62
Portfolio	6	55.82	55.82	59.70	-0.37	1.83
UK Leading Cos	6	42.76	43.98	46.15	...	3.21
Broker Trusts						
Intnl Equity	6	43.97	44.58	47.46	-0.12	2.88
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants 0800 525725						

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Bid Price	Offer Price	+ or -	Yield Gross
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood, Peterborough PE2 6FY 0733-470470				
Property Dist. (Gross)	136.1	143.3		-
Property Acc. (Gross)	259.4	273.1	+0.1	-
Equity (Gross)	852.9	897.8	-5.5	-
Managed (Gross)	[illegible]	634.9	-2.7	-
Property Acc. (Net)	124.0	130.5		-
Equity (Net)	198.4	208.9	-1.1	-
Investment Manager	91.6	96.4		-
Managed (Net)	189.8	199.6	-0.7	-
Cautious Managed	96.4	[illegible]	+0.1	-
International (Net)	157.9	166.3	-1.3	-
Gilt & Fixed Interest	142.8	150.4	+0.4	-
Money Fund	140.0	147.4		-
Mixed Fund (Cap)	116.2	[illegible]		-
Mixed Fund (Acc)	120.7	127.1		-
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Plan (Series 1)	654.0	688.5	-3.6	-
Ret Plan (Series 2)	221.8	233.5	-1.2	-
Ret Cash	197.5	207.9	+0.1	-
Pens Mixed Fd (Cap)	128.7	135.5		-
Pens Mixed Fd (Acc)	133.7	[illegible]		-
Pens Stlg Fd (Cap)	103.7	109.2		-
Pens Stlg Fd (Acc)	107.7	113.4		-

For Pioneer Mutual see Swiss Pioneer

	Bid Price	Offer Price	+ or -	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	131.0	[illegible]	-1.0	-
Building Soc. Fd	223.0	235.0		-
Balanced	268.0	283.0	-1.0	-
European	207.0	218.0		-
GT Managed	183.0	[illegible]	-1.0	-
Gartmore Mngd	120.0	127.0		-
German	134.0	142.0		-
[illegible]	179.0	[illegible]	-1.0	-
Global	40.0	43.0		-
International Equity	[illegible]	206.0	-1.0	-
Japan	160.0	169.0	-2.0	-
Leisure	38.0	51.0	-	-
Managed	[illegible]	48.0	-1.0	-
Property	292.0	308.0		-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Asset Global Funds Ltd (1200)						
Victory Hse, Prospect Hill, Douglas, IoM 0624 620097						
European Equity	5	13.10	13.10	14.05		-
UK Gilt	5	10.262	10.262	10.80		-
Intl Equity	5	13.724	13.724	14.80		-
[illegible]	5	5.032	5.032	5.310		-
Ashburton Managed	5	.9509	.9509	1.0059		-
European Bond	5	.9997	.9997	1.0537		-
Sterling Cash Inc	5	.9540	.9540	1.0017		-
CMI Fund Managers (IoM)						
Clerical Medical Hse, Douglas, IoM 0624 625599						
High Income	5	0.4827	0.4827	0.5081		10.25
CMI Core Portfolio Fund						
UK	5		0.9752	1.0457		-
USA	5		0.9726	1.0317		-
Japan	5		0.4238	0.4473		-
Equity & Law Intl Fund Mngrs Ltd						
Victory Hse, Prospect Hill, Douglas, IoM 0624 677877						
Total Income Fd	5	95.73	95.96	100.99	+0.24	10.0
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 627610						
Intl Grth	5¼	462.8	462.8	496.2	-5	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd						
PO Box 52 Athol St Douglas IoM 0624 661020						
LJ International	5¼	89.18	89.18	95.85	-0.36	-
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas, IoM 0624 662255						
Merc IoM Fund	5	102.0	102.0	108.8		6.4
Merc Intl Bond	5	50.33	50.33	52.92		8.7
Sun Life Management (IoM) Ltd						
PO Box 178, Douglas, IoM 0624 622444						
Secure High Income	6	1.0557	1.0557	1.1319		7.95
Unibank Scandinavian Fund Ltd						
23 Bucks Road, Douglas, IoM 06246 26484						
Scandinavia Fd	5	-	132.39	141.12		1.0

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
ATC Fund Management (SG) Ltd				
SG International		$10.79		-
CML Fund Mngrs (IOM)				
Traders Fund Ltd H	17.18	18.97		-
*Dealings Wednesday				
City Financial Admin (IoM) Ltd				
Beckman Boston & Warrants	0.49	0.57	+0.02	0.00
Beckman Boston & Warrants $	0.87	1.01	+0.04	0.00
Beckman Reserve Assets	107	107	+1.00	2.64
Duncan Lawrie Inv. Mgt. Ltd				
DL Sterling	126.2	132.6		8.4

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Citibank (CI) Ltd "Citifunds"						
Short term Investment Funds						
Irish £ Jul 2			118.751			-
Equity Funds						
Japan Equity Jul 2			$7.286			-
US Em Rith Jul 6			$22.560			-
US Em Tech Jul 6			$18.052			-
Chicare Jul 6			$34.619			-
Bond Funds						
GNMA Bond Jul 6			$15.029	15.039		-
HYB DU Jul 6			$91.876	852		-
EBC Trust Company (Jersey) Ltd						
EBC Auto Traded Currency Fund Ltd*						
Income			$15.28	15.759		2.73
Capital			$23.77	24.524		5.50
*Offer price includes 3% prelim. charge						
International Income Fund						
Eurobd Long Term*			$34.58	36.1525	+0.3001	4.67
* Offer Price includes 3½% Initial Charge						
Equitilink International Mngt Ltd						
First Aust Prime Inc Inv Co Ltd NAV July 2 C$13.20xd						
First Aust Prime Inc Inv Co Ltd NAV July 2 US$10.87xd						
NAV Diluted to reflect exercise of all Wrnts C$12.84 US$10.58xd						
Fidelity Investment (CI) Ltd						
Sterling American			£2.470	2.600	+0.007	-
Fleming Group						
Robert Fleming Management (Jersey) Ltd						
Deutschland Inv Co NAV			DM16.53			-
Foreign & Colonial Mngmt (Jersey) Ltd						
Hypo Foreign & Colonial Reserve Asset Fd Ltd						
US$ Cash			$10.74			-
Sterling Cash			£12.04		+0.01	-
US$ Bonds			$15.16		+0.03	-
Multicurrency Bonds			$20.58		+0.04	-
Sterling Bonds			£13.48			-
D Mark Bonds			DM10.60		+0.01	-
Ecu Bonds			Ecu11.68			-
UK Equities			£10.04		-0.09	-
US Equities			$16.38		-0.02	-
Japanese Equities			Y577			-
Contl Euro Equities			DM17.01		-0.03	-
UK Negative Equities			£12.23		+0.13	-
US Negative Eq			$10.16		+0.02	-
Japanese Negative Eq			Y1058			-
Cont Eur Negative Eq			DM-			-
UK Geared Equities			£-			-
US Geared Equities			$10.23		-0.04	-
Japanese Geared Eqs			Y-			-
Contl Euro Geared Eq			DM-			-
John Govett Management (Jersey) Ltd						
Paragon Fd NAV Jun 30			$10.54			-
Paragon Redemption			$9.91			-
Hungarian Inv Co Jun 30			103.42			-

For Holborn Fund Mngrs see Prudential Fund Mngrs

INVESCO MIM International Limited

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar slips to 17-month low

THE DOLLAR dipped to a 17-month low against the D-Mark on the foreign exchanges yesterday due to technical trading and continuing bearish sentiment over the US economy, *writes James Blitz.*

With few economic indicators due out of the US this week, the currency continues to be overshadowed by last week's cut in interest rates and a feeling that the economy is into a triple-dip recession. That poor sentiment was compounded yesterday by the lack of any supportive comment from the summit of the Group of Seven leading industrial nations in Munich. Indeed, Mr David Mulford, the US Treasury undersecretary, said that the final communique, due out today, will contain no "detailed language" on foreign exchange rates. "There's nothing coming out of G7. That's why the dollar's been coming down for these last 48 hours," said one trader at a leading US bank in London.

The dollar closed yesterday at DM1.4980 from a previous close of DM1.5130. In late American trading, it was at a new low of DM1.4956.

The question now is whether the dollar will sink to its all-time low against the German currency of DM1.4430 set on February 11, 1991. Mr Mark Austin, chief economist at HongKong and Shanghai Banking Corp in London sees the dollar at the centre of a battle between two groups. "On one side they are saying that the dollar is cheap and now is the time to buy. On the other side, the feeling is that the US economy is not recovering, that political uncertainty is increasing and that the thing to do is sell."

The lack of comment at the G7 meeting also had a negative effect on the Japanese yen. Investors had assumed that the G7 would openly support the yen to reduce the huge trade deficit that Japan has with the US. In the absence of this, the yen lost ground to the D-Mark yesterday, closing at Y83.02 from Y82.25. However analysts remain bullish about the yen, expecting the Japanese authorities to introduce a mixture of a fiscal boost and an interest rate cut.

Sterling was again the principal loser in the European Monetary System. With no indicators issued in the UK, it was again dragged down by the dollar's weakness and finished at DM2.8850 from a previous close of DM2.8900.

The currency is firmly at the bottom of the EMS grid and some dealers fear that it may soon reach its permitted lower limit against the Portuguese escudo, the strongest currency in the system. Although the Portuguese authorities hinted strongly at an interest rate cut on Monday, there is a 5.97 percentage point divergence between the two currencies, compared to the permitted divergence of 6.18.

£ IN NEW YORK

July 7	Close	Previous Close
£ Spot	1.9327-1.9337	1.9105-1.9115
1 month	1.14-1.12pm	1.14-1.12pm
3 months	3.13-3.10pm	3.01-2.99pm
12 months	10.73-10.63	10.37-10.27

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jul 7	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	171.571	-4.01	[illegible]	[illegible]
Spanish Peseta	133.631	129.380	-3.18	5.18	[illegible]
Belgian Franc	42.4032	42.1532	-0.59	[illegible]	[illegible]
D-Mark	[illegible]	2.04748	-0.41	2.25	[illegible]
Dutch Guilder	2.31643	2.30819	-0.36	2.19	[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO (July 2)

PARIS

BASE LENDING RATES

MONEY MARKETS

Rates firm again

RATES in the sterling cash markets continued to firm yesterday as the Bank of England forecast another large shortage which dealers found difficult to remove.

The Bank forecast a shortage of £1.25bn in the morning, which was later revised upwards to £1.6bn. But dealers were slow to offer bills to the Bank throughout the day and the authorities had to provide late assistance of around £510m.

Dealers explained the stickiness of the market by lingering hopes that the authorities might signal a cut in base rates. On Friday, the Bank shaved the rates at which it deals in longer dated bills. But the expectation that this would be the precursor to a rate cut was dashed again yesterday. The Bank failed to deal in longer dated bands, purchasing bills in Bands 1 and 2 at the established rates of 9⅞ per cent and repurchase agreements (repos) at 9⅞ per cent.

Dealers said that the Bank's reduction in the supply of Treasury Bills had also caused difficulties "The Bank has been issuing more gilts recently," said one trader, "and as a result they do not need to cover their funding by issuing more Treasury bills." This gives dealers a smaller range of monetary instruments with which to operate.

Cash rates ended firmer on the day, with the overnight rate rising to a peak of 11 per cent. 1-month money again closed at 10⅛ per cent, but 3-month money, a key indicator of the market's view on rates, finished at 10⅛ per cent from a previous close of 9⅞ per cent. One-year money ended up, at 9⅞ per cent, from a previous close of 9¾ per cent.

The firming of longer-dated rates was also due to sterling's poor performance on the foreign exchanges, as the pound dropped ½ a pfennig to DM2.8850. Sterling futures responded in bearish fashion to the currency's decline. The September contract finished at 90.19 from a previous close of 90.25, and the December contract finished at 90.46 from a previous close of 90.50.

In its morning operations, the Bank purchased £150m, and later £591m, in a "repo" for resale on 27, 28 and 29 July. In the afternoon, the Bank purchased £166m of Band 1 bank bills and £79m of Band 2 bank bills.

UK clearing bank base lending rate 10 per cent from May 5, 1992

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,893 Set by CINEPHILE

ACROSS

1 One that looks just like one's wife? Nonsense! (6,5)
7 Frighten an animal (3)
9 Man on council or tree (5)
10 Support a line educationally between 11 and 18? (10)
11 Unwilling to organise cattle run (9)
12 Two leading characters in battle of Hastings? (5)
13 Bird got teeth into bird (7)
15, 18 Attractive character in TV serial taking the cake? (4,4)
20 Thomas finds key in tank (7)
23 Tickle one of nine (5)
24 Raises handle from space in building (4,5)
26 Where blade meets blade, men row, oddly following rule (4,5)
27 First king of Israel backed follower of religion (5)
28 Animal cast metal (3)
29 Took a pew this month with craving to do some embroidery (5,6)

DOWN

1 Violent speech should help raise clan (8)
2 Wave, almost excessively after time (8)
3 Words for the extremely rich (5)
4 New sin I add to contemptuousness (7)
5 Historian's account kept by emperor (7)
6 Worker at thicket kept on in park (9)
7 Girl within call from hole (6)
8 Style for song or catch after waiting (6)
14 Surrounded by duck, prime minister is superficially the top layer! (9)
16 What follows A in degrees back in Panama? (5,3)
17 This October's designed for Macs (8)
19 Little Alfred with tail first is a fool (7)
20 Pole has insult with no end of flavour (7)
21 Cheek at work at high speed (6)
22 Judge's address and head-dress given to Beethoven (6)
25 To stocking up with shoe? (5)

Solution to Puzzle No.7,892

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

NETHERLANDS

SWEDEN (continued)

SWITZERLAND

NORWAY

ITALY

SPAIN

SWEDEN

SOUTH AFRICA

JAPAN

AUSTRALIA (continued)

AUSTRALIA

HONG KONG

MALAYSIA

SINGAPORE

CANADA

TORONTO

4:00 pm prices July 7

Quotations in cents unless marked $

MONTREAL

4:00 pm prices July 7

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

	Jun 26	Jun 19	Jun 12	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.14	3.03	3.16

	Jul 1	Jun 24	Jun 17	year ago (approx.)
S & P Industrial div. yield	2.66	2.72	2.72	2.96
S & P Indl. P/E ratio	28.74	28.14	28.03	16.95

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Dillard Dept	5,797,700	31⅛	-4½
Marion Merrell	3,968,900	27⅛	-5¼
GTE Corp	2,495,500	32⅝	+⅛
Gabo	2,390,100	25⅛	+⅛
Chrysler	2,367,400	19⅛	-⅛
Ford Motor	2,361,000	42⅝	+½
Gen Motors	2,296,900	40⅛	...
K Mart	2,026,500	21⅛	-⅛
Merck	1,908,600	50⅛	-⅝
Amer T & T	1,903,600	32⅛	-⅛

TRADING ACTIVITY

† Volume Millions	Jul 7	Jul 6	Jul 2
New York SE	220.345	186.410	220.130
Amex	10.996	7.928	9.704
NASDAQ	(u)	134.773	194.651
NYSE			
Issues Traded	2,281	2,292	2,281
Rises	696	980	936
Falls	1,048	774	832
Unchanged	537	538	513
New Highs	103	73	107
New Lows	44	35	33

CANADA

TORONTO	Jul 7	Jul 6	Jul 3	Jul 2	1992 HIGH	1992 LOW
Metals & Minerals	3161.97	3168.98	3201.74	3188.60	3238.87 (16/1)	2828.36 (8/4)
Composite	3416.29	3426.91	3420.10	3408.10	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1809.83	1817.24	1806.18	1796.88	1937.59 (16/1)	1727.04 (8/4)

TOKYO - Most Active Stocks

Tuesday 7 July 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Taiyo Fishery	6.8m	502	-18	Meiji Milk Prod	2.4m	951	+20
Mitsubishi Mater	5.8m	416	+6	Green Cross	2.3m	1,060	+20
Suzuki Motor	5.1m	793	+16	Sanyo-Kokusaku	2.3m	551	+16
Koa Denko	3.2m	900	+32	Daikyo Kanko	2.1m	733	-47
Isetan	2.5m	1,540	-180	Toyama Chemcl	1.9m	747	-4

4:00 pm prices July 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
44⅞	38⅝	Scana Corp	2.88	6.5	12	881	41¼	40⅞	41⅛	+⅛
47⅞	40¼	Scecorp x	2.80	6.2	13	2838	45⅛	44¾	44⅞	
66	49⅞	ScheringPl	1.56	2.8	17	1887	56⅛	55	55⅛	-⅛
68⅞	52¾	Sch'berger	1.20	1.9	17	3250	63⅝	61⅝	61⅞	-1¾
37¾	20⅛	Schwab(C)	0.24	1.1	12	1328	23	22¼	22¼	-⅜
10⅛	6¾	Schwitzer				41	10	7⅞	7⅞	7⅞
24	15¼	ScientAtln	0.16	0.7	182	848	23¼	22⅞	22⅞	-⅛
10⅝	7⅛	Scotmen x	0.10	1.2	58	85	8⅝	8½	8½	-⅛
46	34½	ScottPaper	0.80	2.1	51	2087	39¼	38⅛	38¼	-1¼
17½	13⅝	ScuddrNAsF	0.22	1.4		56	15⅝	15⅜	15½	
9⅛	8⅞	ScuddrNEuF	0.30	3.3		68	9⅛	9	9⅛	
24	16	Sea Cont	0.70	3.3	10	66	22	21½	21½	-½
15¾	14⅞	SeaC1.4625	1.46	9.7		z100	15⅛	15¼	15⅛	
31	26⅞	Seagram Co	0.14	0.5	18	2736	28⅛	27¾	27¾	-⅛
28½	21⅜	Seagull En			490	130	24¾	24½	24½	
56⅞	43¼	Sealed Air			25	292	47½	47¼	47⅜	+⅛
22⅞	12⅛	SPX Corp	0.40	1.9	19	189	20⅝	20⅛	20⅝	-⅛
48	37	Sears Roeb	2.00	5.3	10	12781	38⅞	38	38	-½
12½	11⅞	Seligm Sel	0.84	6.7		242	u12⅝	12⅜	12½	+⅛
31⅛	24⅜	Sensormat	0.30	1.2	24	9043	25¼	d24⅛	25⅛	-⅜
51	38¼	Sequa A	0.60	1.5	46	38	39¼	39	39⅛	+⅛
68	46½	Sequa B	0.50	1.0	27	9	50½	50½	50½	+½
18¾	15⅞	ServiceCpI	0.40	2.4	15	1031	17⅛	16⅞	16⅞	
27⅞	22	Servicemr x	1.18	4.5	14	326	26½	25⅞	26¼	+¼
26⅞	17	Shaw Ind	0.30	1.3	30	725	23	22½	23	+½
19¾	8⅞	Shawmut Nt	1.00	5.6	93	2389	18⅛	17⅜	17¾	-½
10¼	6¾	Shelby Wil	0.24	3.0	33	5	8⅝	8⅝	8⅛	-½
57⅞	45⅝	Shell Tr&T	2.57	4.5	18	288	57⅛	57⅛	57⅝	+⅜
30⅛	25⅜	Sherwin Wi	0.44	1.6	18	1748	28⅞	27⅞	27⅞	
[illegible]										

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28½	24⅛	Xtra 1.94	1.94	7.0		12	27½	27½	27½	
37	28½	Xtra Corp	0.80	2.3	12	62	35⅛	35	35¼	-⅛
27	25¼	Yankee Egy	1.68	6.1	12	32	u27⅜	26¾	27¼	+⅛
1½	½	Zapata			43	91	1	⅞	⅞	-1/16
11½	6⅞	ZenithElec			3	295	7⅛	7⅛	7⅛	-⅛
19½	14½	Zenith Nat	1.00	5.3	8	237	19⅛	18½	18¾	+⅛
7⅛	6	Zenix Inc	0.82	11.7		126	7	6⅞	7	
13⅞	10	Zero Corp	0.40	3.9	16	148	10⅝	10⅜	10⅜	-⅛
38	27¾	Zurn Ind	0.88	3.1	31	177	28¾	28½	28½	
14⅛	12	Zweig Fund x	1.15	9.2		381	12½	12⅛	12⅝	
11	9½	Zweig Tot x	0.86	8.5		808	10⅛	10⅛	10⅛	+1/16

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices July 7

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Perini	0.80	27	7	13⅛	13	13	
Pet H&P	1.14	16	14	14⅞	14⅝	14⅝	
Phil LD	0.21	16	1111	38⅞	38⅛	38½	-⅛
Pittway A	1.10	16	9	31	30¾	30⅞	-⅛
Ply Gem	0.12	22	49	11	10¾	10⅞	-⅛
[illegible]							

NASDAQ NATIONAL MARKET

4:00 pm prices July 7

[illegible]

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		20	2768	18½	17¾	18¼	
Xoma Corp		7	1840	13½	13	13¼	
Yellow Fr	0.94	20	1217	26⅛	25⅛	25½	-¼
York Rsch		6	600	5⅛	4⅞	4⅞	-¼
Ziontsh x	1.44	11	114	57½	56½	56½	-1¼

AMERICA

Heavy program selling spurs decline in Dow

Wall Street

US STOCK markets fell sharply yesterday on heavy program selling and continued investor uncertainty about the outlook for the economy and corporate earnings, *writes Patrick Harverson in New York.*

At the close the Dow Jones Industrial Average was down 44.03 at 3,295.17, with the bulk of the losses incurred in the final hour of trading.

The broader based Standard & Poor's 500 moved in similar fashion, ending 4.67 lower at 409.17, while the Amex composite fell 2.32 to 380.26 and the Nasdaq composite 5.77 to 567.40.

Turnover on the NYSE was heavy at 220m shares and declines outpaced rises by 1045 to 690.

Ever since the Federal Reserve cut interest rates last week in reaction to bad employment news, the market has struggled to find a direction. Investors are hoping that the rate cut will trigger a rush of funds into equities, as happened the last time the Fed eased, in late 1991, but concern about the economy and second quarter earnings is keeping enthusiasm in check.

Among individual stocks, Georgia-Pacific fell $4¼ to $55 in heavy trading after the wood and paper products group issued a warning that its second-quarter results would be only slightly better than break-even and well below the $33m profit it reported at the same stage a year ago.

Other paper stocks fell in sympathy, with International Paper dropping $2¼ to $65⅞, Louisiana-Pacific falling $1½ to $41⅞ and Weyerhaeuser easing $2⅛ to $31⅞.

Digital Equipment bucked the trend, rising $⅞ to $34⅞ as investors bought the stock ahead of yesterday's expected overhaul of the computer company's product lines, which will include producing new machines for the mainframe market.

Other computer stocks opened firmer but fell on the late program sales, with Hewlett-Packard down $1⅝ at $83⅛, IBM down $1⅜ at $96¾ and Motorola $⅝ weaker at $75⅝.

W R Grace fell $1⅛ to $32⅞ in turnover of 1m shares after Lehman Brothers, the Wall Street broking house, reduced its rating on the stock from "outperform" to "neutral".

Motor stocks were mixed, despite news of lower oil prices, with Ford up $⅛ at $42⅞. General Motors unchanged at $40⅛ and Chrysler $⅛ lower at $19⅜.

American Health Products plunged $3⅞ to $28⅝ on the news that the company plans to divest certain psychiatric properties. Although the company said the divestment would not threaten its dividend, a writedown may be required.

On the Nasdaq market, Micrografx plummeted $5⅞, or 43 per cent, to $7⅝ after the software company said that charges relating to a cancelled secondary stock offering and other non-recurring costs would mean that it will report only break-even per-share results for the fiscal first quarter.

Canada

TORONTO stocks closed lower in active trading. According to preliminary data, the TSE 300 composite index fell 10.62 points, or 0.31 per cent, to 3,416.29. Declines led advances by 298 to 219. Trading volume of 30.8m shares was above Monday's 20.6m, and trading value was C$361m compared with C$362.6m.

Ten of the 14 stock groups closed lower. The industrial products group posted one of the day's biggest declines, off 1.17 per cent on index.

Energy and golds were down moderately, and financial services, mining, and consumer products were little changed.

EUROPE

Lower dollar weighs on most bourses

ANOTHER plunge in the dollar, taking it down through DM1.50 in London, was blamed for falls on most bourses, *writes Our Markets Staff.*

FRANKFURT was disappointed that prices had failed to react to Monday night's compromise in Bonn on a 30 per cent withholding tax on interest income. But it took some comfort from the US treasury secretary, Mr Nicholas Brady, who inferred at the Munich G7 summit that the Bundesbank might cut interest rates soon.

The DAX lost 4.85 to 1,767.51 after an early loss of 10 points, and a fall of 3.10 to 697.36 in the FAZ at midsession. Dealers said that the rebound might have been technical, as futures market traders were seen buying the 30 DAX shares to narrow the gap between the cash index and the DAX futures contract.

Siemens shed DM6 to DM667 after saying on Monday that it saw little room for a higher dividend on 1991-92 results. Chemicals also came under pressure from expectations of poor second-quarter results. Bayer leading the way down with a fall of DM2.60 to DM279.90.

Schering overcame the trend to close with a gain of DM9.40 at DM732.40 on talk that it was about to announce it had found buyers for its chemicals businesses.

ZURICH liked the Brady comments but not the higher dollar, and the SMI index closed 6.0 down at 1,856.6 after an earlier low of 1,850.3.

Nestlé bearers fell SFr100 to SFr9,460, dealers saying that there had been several major sell orders. Brown Boveri, also export-sensitive, lost SFr40 to SFr4,250 francs.

PARIS was given a late lift by the bond market but turnover remained thin, with only FFr1.8bn worth of business. The CAC-40 index finished 10.57 higher at 1,879.09 in quiet trading.

Alcatel Alsthom remained active, adding FFr13 to FFr654, while the lower dollar and fading hopes of an early economic recovery in the US prompted profit-taking in Rhône-Poulenc which dropped FFr24 or 4 per cent to FFr559.

Havas ended 60 centimes lower at FFr495.90 with 315,000 shares traded, as two blocks were traded ahead of the July 15 expiry of a warrant issue.

AMSTERDAM was knocked lower by some disappointing company reports and the weaker dollar. The CBS Tendency index eased 0.5 to 121.7.

The office supplies group, Océ van der Grinten, shed Fl4.80 or 7 per cent to Fl 64.70 after releasing poor second-quarter results. The food producer Nutricia fell Fl 7.90 to Fl 145.50 after its chairman said that recent profit growth would be hard to maintain.

MILAN got dangerously close to the support level of 420 on the Comit index as it fell 7.15 to 434.20 in turnover estimated at slightly more than Monday's low L72.1bn.

Dealers said thatthere were rumours of financial problems at various Sims, due to losses incurred in the bond market, which has fallen heavily on currency devaluation fears.

The recent rise in interest rates and the government's plans to freeze public tariffs weighed in particular on the telecommunications sector. Stet fell L26 to L1,629 and was down to L1,580 in the after-market. Sip lost L43.5 to L1,187.

OSLO ended mixed in thin trading, with Aker A shares gaining NKr2.5 to NKr54 on news the company had sold its stake in Spanish cement company, Valenciana. The all-share index ended 0.61 firmer at 397.71 in low turnover of NKr182m.

MADRID suspended Valenciana ahead of a takeover bid by Cemex of Mexico, reportedly at Pta15,000 a share. Valenciana closed off Pta350 at Pta14,500 on Monday. The general index fell 0.45 to 238.29.

STOCKHOLM cited the weak dollar as the Affärsvärlden General index fell another 9.7 to a new 1992 low of 894.5.

Trelleborg, the metals group, saw its B shares fall SKr1 lower at SKr106 while A shares in Asea, one of this year's top performers in Europe, fell SKr9 to SKr383 for an accumulated SKr14 loss this week.

TEL AVIV closed sharply higher in active trading on strong buying by mutual funds, the blue chip index rising 3.13, or 2.1 per cent to 153.09 in turnover of Shk137.5m.

FT-SE Eurotrack 100 - Jul 7

Hourly changes

Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1131.10	1129.10	1128.55	1128.36	1129.49	1130.00	1130.12	1129.83

Day's High 1131.10 Day's Low 1127.93

Jul 6	Jul 3	Jul 2	Jul 1	Jun 30
1134.09	1142.19	1134.63	1132.36	1139.30

Base value 1000 (26/10/90).

ASIA PACIFIC

Weak construction sector pulls Nikkei down

Tokyo

RUMOURS of bankruptcy at a construction company listed on the over-the-counter market depressed sentiment, construction and real estate-related issues fell, and the Nikkei average declined for the third consecutive day, *writes Emiko Terazono in Tokyo.*

The Nikkei fell 197.52 to 16,459.55. Small-lot arbitrage buying pushed it up to a day's high of 16,709.86 in the morning, but jitters over the construction company then spread throughout the market, and the index fell to the day's low of 16,420.81 on mid-afternoon selling.

Volume remained low at 170m shares, rising marginally from 161m. Investment trusts, which had supported the market last week, were absent. Declines led advances by 706 to 211 with 173 unchanged, the Topix index of all first section stocks fell 16.39 to 1,271.15 and, in London, the ISE/Nikkei 50 index fell 2.87 to 995.57.

Concerns about financial problems at Royal Construction shook investors, as the Japan Securities Dealers Association suspended afternoon trading in the shares on the OTC market. After the market closed, Royal announced that it would seek court protection.

Investors were also worried over reports that Shuwa, the land and stock speculator and leading shareholder of Isetan, the department store, had used Isetan shares as collateral for loans.

Property-related issues and construction stocks plunged. Daikyo, the condominium builder, which had previously retreated on rumours of financial problems, fell Y47 to Y733, and Misawa Homes, which was recently sold on similar concerns, declined Y48 to Y951.

Leading construction companies fell, with Obayashi down Y10 to Y542, Taisei losing Y24 to Y660 and Shimizu Y30 to Y911.

Isetan plunged Y190 to Y1,540. Other retailers were also weak, with Seven-Eleven Japan plunging Y340 to Y6,900 and Ito-Yokado losing Y190 to Y3,920.

Penta-Ocean Construction, which surged on Monday on reports that the company had won an order to expand a section of the Suez Canal, lost Y55 to Y828 on profit-taking.

Matsushita Electric Works fell Y30 to Y1,040. The company forecast a 30 per cent fall in pre-tax profits for the current year to November this year, the first fall in six years.

Mitsubishi Materials advanced Y6 to Y416 on reports that the company was likely to win an order to supply pipes and tanks for a nuclear facility in northern Tokyo.

In Osaka, the OSE average lost 258.40 to 19,309.01 in volume of 7m shares.

Roundup

DECLINES led advances in the region yesterday, although Bombay stayed in suspension and Manila was closed for a public holiday.

HONG KONG finished sharply lower, reflecting political worries after three days of high level talks in Beijing on Hong Kong's massive airport project ended on Monday with no agreement on funding.

The Hang Seng index fell 112.85 or 1.9 per cent to 5,911.92 after an intraday low of 5,857.47. Among blue chips, HSBC was the most active stock as it lost HK$1 to HK$49, followed by Sun Hung Kai Properties, down HK$1 to HK$32.75. Turnover dropped from HK$6.1bn to HK$3.6bn.

SEOUL closed at a 53-month low for the second consecutive day, and while the composite index only fell 0.38 to 535.34, a land scandal involving former military officers continued to dampen depressed sentiment.

Police were tracking promissory notes issued by First Life Insurance, believed to be trading in the black market at a discount.

TAIWAN fell as hopes for an early interest rate cut faded, the weighted index ending 79.75, or 1.8 per cent lower at 4,432.22, turnover staying active at T$25.7bn against Monday's T$28.7bn.

AUSTRALIA closed slightly lower in dull trading as investors waited for a cut in interest rates. The All-Ordinaries index lost 3.2 to 1,660.5 in modest turnover of A$200.6m.

Banks were lifted by the rate cut hopes, with Bank of Melbourne and Bank of Queensland gaining 4 cents to A$4.33 and A$5.00 respectively.

NEW ZEALAND closed at its best level in almost four weeks, as investors took heart from the prospect of lower interest rates.

The NZSE-40 index rose 17.18 to 1,559.07 but turnover was a modest NZ$21.76m. Among active second-liners, PDL rose 25 cents to NZ$6.85 while Michael Hill rose 17 cents to NZ$2.00 and Transmark rose 20 cents to NZ$3.00 after publishing its annual report.

KUALA LUMPUR was pushed higher by afternoon buying of second- and third-liners by retail investors. The composite index rose 0.95 to 596.70 in volume of 56.5m shares. Sungei Besi led the actives with 4.6m shares traded, rising 10 cents to M$4.52. South Malaysia Industries closed up 24 cents at M$3.18 on talk that the privatised Sabah Shipyard would be injected into SMI.

KARACHI fell further as textile mills threatened to cut production. The 100-share index fell 19.71 to 1,460.60. DHAKA receded further in dull trading, the all-share index ending 8.18 lower at 374.22.

SOUTH AFRICA

JOHANNESBURG fell as private investors sold out, unnerved by local political developments. The industrial index lost 68 to 4,367. The overall index was 55 lower at 3,544 and the gold index shed 19 to 1,066.

Corruption allegations harm Brazilian equities

The political uncertainty has led to volatility and a drop in trading volume, says **Bill Hinchberger**

Sharp fluctuations, with diminishing volumes, have characterised the precipitate downward career of Brazil's equity market during last two months.

During a lull in the country's wounding political crisis, the index of the Sao Paulo Stock Exchange (Bovespa) recovered by 5.3 per cent on Monday, following a 6.2 per cent drop on Friday. By noon yesterday it gained a further 4.7 per cent to 22,387. However, it had fallen by 46.7 per cent in dollar terms between April 22 and June 30, sustaining its worst one-day fall of the year on Monday, June 29 with a drop in dollar terms of 15.6 per cent.

Volume, meanwhile, was $33.9m on Monday, down from an already record low for the year of $43.4m on Friday. Trading for the first days of July was 43 per cent lower than the same period in June, when volume had dropped by 19.3 per cent from May. Daily trading of $100m, commonplace just a few months ago, is becoming a distant memory.

Since the last week of May, the malaise in the market has reflected allegations of corruption involving President Fernando Collor de Mello, either in the press or in the parliamentary inquiry into charges of influence peddling and other wrongdoing by Mr Paulo Cesar Farias, a businessman who was treasurer of Mr Collor's campaign.

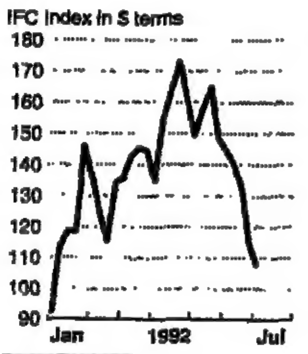
Analysts are beginning to say that the ability of new revelations to shock the market may be wearing thin. The rise in the index on Monday came in spite of a new series of allegations in the press on Sunday.

"The effect of the headlines may be diminishing," says Mr Julius Buchenrode, director for investments of the local subsidiary of Chase Manhattan Bank.

However, investors who saw the market rise by 152 per cent in dollar terms in 1991, after a punishing crash in 1990 when

Brazil

IFC Index in $ terms



Source: Datastream

the Bovespa fell 71 per cent in dollar terms, seem to be voting with their feet.

They may be waiting for a definition in the political scenario. The parliamentary commission is continuing its investigation, and some members of Congress are calling for Mr Collor's resignation. The president says that he will stand firm, which could lead to a debate on impeachment.

There is also uncertainty about the depth of the president's parliamentary support and the future of the economy minister, Mr Marcilio Marques Moreira, if Mr Collor were to step down. Mr Moreira has become a symbol of stability to the business community.

"I'd say that everything is being contaminated [by the political situation], and you should not draw conclusions on any investment," says Mr Ken Baxter, general manager for foreign funds of the Bozano Simonsen bank.

With growing uncertainty, trading is becoming even more concentrated than before, even by the normal standards of the traditionally narrow bourse. On Monday, Telebras, the public telecommunications company which makes up one-third of the Bovespa index, accounted for 64 per cent of volume; 90 per cent of trading was restricted to blue chip shares. Telebras rose by 10 per cent, and Companhia Vale do Rio Doce, the state-controlled mining group, by 4.7 per cent.

This concentration is reversing a trend evident before the political crisis: a move toward second-line equities, shares traditionally short on liquidity but in companies that are often industry leaders in Brazil. Traders disagree whether the current retrenchment is a response to current low prices for blue chips or if it reflects a search for greater security during the political upheaval.

The ability of foreign investors to adjust to uncertainty in the Brazilian equities market was improved by the National Monetary Council's announcement last week that foreign investors will be eligible to operate in the options and futures markets. Previously, the only hedge available to foreign institutions, allowed to invest directly in Brazil since last year, was the foreign exchange market.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JULY 7 1992								MONDAY JULY 6 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	147.06	−0.3	113.20	115.64	114.53	131.46	−0.2	4.16	147.53	114.52	116.10	116.05	131.79	153.88	140.94	142.53
Austria (19)	173 08	+0.6	133.24	136.11	134.80	134.81	−0.3	2.17	172.05	133.55	135.40	135 34	135.21	188.70	162.48	175 82
Belgium (42)	148 75	+0.4	114.51	116.96	115.85	113 35	−0.3	5.43	148 17	115.01	116.60	116.55	113 64	148 75	135.87	124.38
Canada (115)	127 10	−0.1	97.84	99.94	98.98	110 12	−0.4	3 29	127.20	98.73	100.10	100.05	110.53	142.12	124.32	138.47
Denmark (35)	245.63	+0.6	189.08	193 16	191 30	192.60	−0.3	1.82	244.07	189.45	192.08	191.99	193.12	273.94	226.81	243.01
Finland (15)	79 15	+0.5	60 52	62.24	61.64	67.79	−0.6	2.08	78.78	61.15	62.00	61.97	68.18	89.80	73.64	93.38
France (104)	164.80	+1 3	126.86	129.58	128.34	130.35	+0.3	3 58	162.64	126.25	127 99	127.92	129.99	168.75	148 06	123.07
Germany (65)	129.32	+0.4	99.55	101.70	100 71	100.71	−0.5	2.29	128.74	99.93	101.33	101.28	101.26	129.32	114.67	103.84
Hong Kong (55)	249.94	−1.8	192.39	196.53	194.66	248.12	−1.8	3.30	254.47	197.52	200.28	200.17	252.64	259.55	176.36	163.19
Ireland (16)	158 33	+2.1	121.88	124.51	123.31	125.58	+1.4	4.32	155.01	120.32	121.99	121.93	123.89	173.71	151 78	142.02
Italy (78)	66.80	−0.9	51.42	52.52	52.02	56.47	−2.0	3.70	67 44	52.34	53.07	53.04	57.61	80.86	66.80	72.20
Japan (473)	100.05	−1.3	77.02	78.67	77.93	78.67	−1.4	1.08	101.34	78.66	79.75	79.73	79.75	140 95	88.70	123.73
Malaysia (69)	241.74	+0.4	186.09	190.09	188.26	232.62	+0.3	2.69	240.89	186.99	189.57	189.48	232.03	250.18	212.49	226.70
Mexico (18)	1460.88	−0.5	1124.55	1148 76	1137.74	4978.21	−0.6	1.19	1468.13	1139.60	1155 40	1154.84	5005.78	1789 77	1355.22	1041 91
Netherland (25)	164.82	+0.8	126.88	129 61	128 37	127 06	−0.1	4.41	163.44	126.86	128.62	128.56	127.15	165 22	147.88	130.95
New Zealand (14)	47.57	+0 9	36.62	37 41	37.05	46.39	+0 8	4.90	47.18	36.60	37.11	37.09	46.03	48.52	42.01	47.64
Norway (23)	173.02	+0.7	133.19	136.06	134.75	138.03	−0.1	1.84	171 86	133.40	135.25	135.19	138 21	192.96	161.28	188.72
Singapore (38)	219.10	−0.5	168.66	172 29	170.63	162 91	−0.5	2.04	220.18	170.91	173.28	173.19	163 66	229 63	192.76	189.62
South Africa (61)	208.91	−0.2	160.82	164.28	162.70	178.20	−1.4	2.90	209.42	162.55	164.80	164.72	180.74	263.60	203.16	243.09
Spain (50)	153.27	+1.0	117 98	120 53	119.37	109 96	+0 0	5.34	151.73	117.78	119.41	119.35	110 00	161 72	148.86	141.11
Sweden (29)	194.20	−0.1	149 49	152 71	151.24	155 82	−1.0	2.61	194.46	150 94	153.04	152.97	157 39	200.28	173.09	186 65
Switzerland (63)	113 20	+0.2	87.14	89.02	88.17	94.54	−0.4	2.27	112.98	87.70	88.92	88.88	94 87	113.51	95.99	87.83
United Kingdom (227)	191 87	+1 7	147.70	150.86	149.41	147.69	+0.9	5 02	188 65	146.43	148.45	148.38	146.43	200.07	165.85	160.85
USA (523)	166 63	−1 1	128.27	131.04	129.78	166.63	−1 1	3.00	168 52	130.81	132.63	132.56	168.52	171.66	160.92	152.29
Europe (791)	154.79	+1.0	119.16	121.72	120.56	120.44	+0 2	4.01	153.19	118.91	120.56	120.51	120.26	156.88	139.31	129.25
Nordic (102)	180.72	+0.2	139.11	142.11	140.74	138.49	−0.7	2 27	180.35	139 99	141.93	141.86	139.42	188.52	168 66	180.21
Pacific Basin (718)	106 67	−1.2	82.11	83.88	83.08	85.27	−1.3	1.45	107.97	83.81	84.97	84.93	86.37	141.97	94.40	125.41
Euro−Pacific (1509)	126 13	−0.1	97.09	99.17	98.22	99 80	−0.6	2.71	126.26	98.01	99.36	99 31	100.38	145.21	113.80	127.25
North America (638)	164.15	−1.1	126.36	129 09	127.86	162.78	−1.1	3.02	165.92	128.79	130.59	130.54	164.57	169.69	158.70	151.35
Europe Ex. UK (564)	132.30	+0.6	101.84	104.06	103.06	104.59	−0.3	3.29	131.55	102.11	103.54	103.50	104.95	132.30	121.81	110.20
Pacific Ex Japan (245)	171.83	−0.8	132.27	135 14	133.84	153.37	−0.8	3.48	173.25	134.48	136.36	136.29	154.61	175.31	149.00	142.18
World Ex US (1703)	127.89	−0.1	98.44	100.57	99.60	102.18	−0.6	2.72	128.03	99.38	100.77	100.72	102.78	146.91	116.45	129.38
World Ex UK (1999)	135.09	−0.8	103.99	106 24	105.22	119 39	−1 0	2.55	136 19	105.71	107.18	107.14	120.61	150.58	127.21	133.76
World Ex. So Af. (2165)	139 57	−0.5	107.44	109.76	108.71	121.50	−0.6	2.83	140.30	108.91	110.43	110.37	122.47	153.05	130.04	135.43
World Ex. Japan (1753)	162 33	−0.3	124.96	127 66	126.44	146.98	−0.6	3.39	162.78	126 35	128.12	128.06	147.90	165.40	153.20	144.01
The World Index (2226)	139.99	−0.5	107.76	110.08	109.03	122.02	−0.8	2.83	140.72	109.23	110.75	110.70	123.00	153.70	130 66	138.14